AUDITOR
GENERAL
Alberta

Annual Report of the Auditor General of Alberta

2004–2005

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AUDITOR
GENERAL
Alberta

Ms. Janis Tarchuk, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *2004–2005 Annual Report* to the members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act*.

This is my fourth annual report to the Legislative Assembly and the twenty-seventh such report issued by the Auditor General of Alberta.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
September 22, 2005

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Introduction

Introduction

1. Recommendation statistics

This *Annual Report* contains 60 (2004—52) recommendations, all of which are listed, starting at page 17. We have numbered the 37 (2004—31) recommendations that we consider need a formal response from the government. Of the 37 numbered recommendations, 31 are new. The other six (2004—7) repeat previous recommendations with unsatisfactory progress. By repeating these recommendations, we expect the government to formally recommit to their implementation.

Issues more than three years old are reported at page 317. Since the benefit of any audit work is not in the recommendation, but in its effective implementation, we always follow up until the issue that gave rise to the recommendation is satisfactorily dealt with. We now have 20 issues reported before 2002 that have not been fully resolved; however, progress is satisfactory for 17 of the issues. Progress is not satisfactory for three issues so we have repeated those recommendations.

Repeated recommendations

This report contains six repeated recommendations.

More than three years old:

- No. 31 Environment—Financial security for land disturbances (*1999*–No. 30)
- No. 33 Finance—ATB: Branch operations compliance (*2000*–No. 49)
- No. 20 Agriculture, Food and Rural development—Grant management system (*2001*–No. 3)

Less than three years old:

- No. 25 Children's Services—First Nation expense recoveries (*2002*–No. 7)
- No. 37 Restructuring and Government Efficiency—Performance measures (*2002*–No. 22)
- No. 32 Finance—ATB: Lending policy compliance (*2003*–No. 15)

Recommendations No. 20 and 32 are key recommendations discussed below.

2. Key recommendations this year

We believe the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed by implementing our key recommendations. We have grouped these key recommendations into **current issues** requiring specific attention today, and a **developing issue** that will require focused attention in the future.

🔑 Indicates a key recommendation

The key recommendations, in serial order, are numbered: 1, 2, 3, 5, 6, 10, 11, 14, 20, 21, 23, 28, 29, and 32.

Current issues

Recruiting, evaluating and training boards—page 28 and 28
(Recommendations No. 1 and 2)

Boards of directors govern over 100 organizations in the Alberta public sector that have been established to assist government Ministers meet their public policy goals. The effectiveness of these organizations depends directly on how well their boards govern them. Good governance can only occur if capable and well motivated individuals are appointed as chairs and directors to these boards.

We believe that effective recruitment, evaluation and training, conducted efficiently, are fundamental to successful board governance so we examined the processes to identify and recommend candidates for board appointment, to evaluate the performance of boards and individual directors, and to train new and existing directors.

Our recommendations are that the Deputy Minister of Executive Council should ensure that existing Alberta public sector governance principles and guidance are complete and consistent with current good practice for recruiting, evaluating and training directors. Governing boards should evaluate and report their own performance, positive and negative, against both Alberta public sector principles and their own board governance policies.

Good governance, producing effective and ethical organizations, does not just occur. Boards made up of directors who are capable and willing to govern need guidance to understand what it is that creates "tone at the top" and how governance is sustained and improved. If directors do not know what is expected of them, if they do not hear how well they are doing, and if they do not get training to improve their governance skills, then the effectiveness of their organizations is jeopardized.

Internal audit—page 31

(Recommendation No. 3)

The Alberta public service recognizes the importance of internal audit. A number of organizations, such as the Universities of Alberta and Calgary, the Workers' Compensation Board and ATB Financial have had internal audit departments for many years. In May 2003, the Alberta government established the Office of the Chief Internal Auditor to provide internal audit services to all government ministries. Other Alberta public sector organizations have recently established or are now establishing internal audit departments.

As a significant stakeholder, the government has a role in assisting audit committees in their oversight of internal audit departments in the public sector. Therefore, we have recommended that the Deputy Minister of Executive Council provide audit committees with guidance for overseeing internal audit departments, including identifying related training.

We examined the operation of 11 internal audit departments. In general, internal audit departments need to improve, in some cases significantly. A common theme evolved from our work—audit committees need to support their internal audit department by:

- setting clear performance expectations focused on results
- ensuring terms of reference for the audit committee and for internal audit are aligned and consistent with IIA Standards
- demanding that internal audit practices in their organization comply with IIA Standards and follow best practices
- requiring auditors to focus on key risks of the organization
- ensuring that the department has the necessary resources to meet their terms of reference

Audit committees increasingly rely on internal audit for assurance on the design and operating effectiveness of organizations' systems of internal control. If internal audit departments do not follow their profession's standards or adopt relevant best practice, then this reliance may be unwarranted.

Agricultural grant, indemnity and lending programs—page 113, 116 and 120

(Recommendations No. 20, 21 and 23)

The Ministry of Agriculture, Food and Rural Development's grant, indemnity and lending programs are significant (grants $350 million, indemnities $750 million and loans $1 billion), so we examined nine grant programs, plus the Canadian Agricultural Income Stabilization program, and the Beginning Farmer Loans program.

Our recommendation is that the Department must evaluate the performance of its grant programs. The Department has not made satisfactory progress in implementing this recommendation, which was first made in 2001. However, we acknowledge that over the last four years the Department has focussed its resources on the design and delivery of emergency financial assistance programs. The Department may not achieve its intended results if it does not establish quantifiable performance measures and targets for its grant programs and conduct post-completion evaluations for individual grants awarded.

The Agriculture Financial Services Corporation needs to improve the controls for awarding loans under the Beginning Farmer Loans program, and the controls over the administration of the Canadian Agricultural Income Stabilization program.

For the lending program, we found that the Corporation has increased its exposure to credit losses by not complying with its lending procedures. For the indemnity program, we found that the Corporation has increased the risk of making inappropriate payments because its controls are inadequate.

Alberta Treasury Branches lending—page 193

(Recommendation No. 32)

ATB establishes rules, guidelines and procedures to manage credit risk when lending officers issue new loans and manage existing loans. These play a critical part in ensuring that ATB operates within prescribed credit risk tolerances. In today's competitive and challenging lending environment, compliance with corporate rules is more important than ever to effectively manage credit risk.

Our recommendation is that ATB should ensure its lending officers comply with corporate lending policies. We have repeated this recommendation, first made in 2003, as ATB has made unsatisfactory progress implementing it. We found a high number of loan files that did not comply materially with certain ATB lending policies. Material issues are those that involve a serious breach of a key control. These could affect the decision to grant or renew the loan, the potential for repayment of the loan or the terms of the loan. Our findings are supported by those of ATB's Internal Audit Department.

We acknowledge on page 194 that ATB has started to clarify, streamline and simplify lending policies. This initiative should help its lending officers to manage credit risk.

Failure to follow established lending policies increases ATB's credit risk, which is the potential for loss from borrowers failing to repay their loans.

Energy: oil and natural gas—page 165 and 169

(Recommendations No. 28 and 29)

The Department and the Alberta Energy Utilities Board (EUB) both require complete and accurate oil and natural gas production volumes to achieve their respective mandates. Industry is required to file volumetric data each month with both organizations. The Department, EUB and industry use the Petroleum Registry System to access key volumetric, royalty and facility data.

We have made two recommendations, one to the Department and one to the EUB, since both organizations have differing responsibilities and objectives. The Department and the EUB should each evaluate the assurance they need over oil and gas production volumes to achieve their respective mandates.

Although there are good controls over oil and gas production volumes, we have made these recommendations to improve the benefits that the two organizations obtain from their use of the Registry. We believe that the benefit of strengthened control will outweigh the cost, especially as there is opportunity for increased efficiency from improved collaboration in meeting their respective responsibilities.

The Department should have adequate assurance that well and production data reported by industry is complete and accurate, but it has not evaluated the amount of assurance that the controls in the Registry are providing.

EUB's processes to verify industry's reported volumetric data and to enforce its measurement requirements can be improved. For example, it has not determined its desired level of assurance over the accuracy and completeness of reported volumes, and escalating enforcement for repeated measurement non-compliance is rare.

Seniors care and programs—page 58, 58, 65 and 66

(Recommendations No. 5, 6, 10, and 11)

In May 2005, we released a report on *Seniors Care and Programs*. The report's 11 recommendations were made to the Departments of Health and Wellness and Seniors and Community Supports. Our recommendations are repeated in this *Annual Report* to enable the government to respond formally and indicate the date by which implementation will be complete.

Long-term care facilities—we found that the Basic Service Standards are out of date, and the monitoring of compliance with standards is inadequate. We recommended that the government update the standards, keep them current, and monitor compliance.

Supported living settings—there are no standards for the care and housing services provided in assisted living and other supportive living facilities so we recommended that the government establish standards to manage the risk that residents receive inappropriate care or services.

Lodges—the standards for operating lodges are out of date and monitoring for compliance with standards is inadequate. We recommended that the government update, maintain and monitor compliance with lodge standards.

We also made two recommendations to the Department of Seniors and Community Supports on the Alberta Seniors Benefit Program.

We have not carried out any follow-up auditing. On page 54 of this report, we summarize the actions that the Departments have taken to start implementing our recommendations, the most significant being the creation of the *Government MLA Task Force on Continuing Care Health Service and Accommodation Standards*. The task force recently issued its report with recommendations that the Departments will consider in determining their future actions.

Key issues highlighted in last year's report

Regarding the accountability of the Health Regions to the Minister of Health and Wellness, we will follow up our recommendation next year. We can report that for all other key issues highlighted last year, which have not already been implemented, progress is satisfactory.

The issues with satisfactory progress are:
- Cross-Ministry—succession management guidance
- Energy—incorporating risk in present value tests for oilsands project approvals
- Finance—private sector pension plans
- Health—healthcare registrations
- Infrastructure—P3s
- Persons with Developmental Disabilities Boards—contracting systems

Developing issue

Sustainable Resource and Environmental Management—page 72

(Recommendation No. 14)

Sustainable Resource and Environmental Management (SREM) is the process for managing Alberta's resources and the environment in an integrated, coherent fashion. *Alberta's Commitment to Sustainable Resource and Environmental Management* was published in 1999. This *Commitment* sets the over-arching principles under which the government is changing the way it manages our resources and the environment.

Provincial resources include air, water, timber, oil and gas, coal and other minerals, and public lands. The government's approach is to manage these resources by integrating decisions, policies, programs and activities so that the long-term benefits to society are optimized and conflicts between competing stakeholders are minimized. Resource decisions can significantly affect businesses such as agriculture, oil and gas, and forest companies, along with fish and wildlife, the public and other levels of government.

There has been considerable progress recently as evidenced by a report to the Standing Policy Committee identifying the high level priorities for implementing the principles of the *Commitment*, and the acceptance by three ministries of their shared complementary responsibility for SREM.

As impediments to sustained progress have now been resolved, we have made a new recommendation on the action the three Ministries (Energy, Environment and Sustainable Resource Development) should take to maintain the momentum they have created. They must publish a SREM implementation plan with projects, deliverables and deadlines.

We will follow up on the three Ministries' progress using as a standard the simple model of goal setting, monitoring progress and reporting on results. A timetable to make integrated resource management a functioning reality provides a basis for assessing the success or otherwise of Alberta's commitment to sustainable resource development.

3. Work of the Office

The Auditor General audits the financial statements of every ministry, department, regulated fund, provincial agency and the organizations listed on page 369. These financial statement audits and auditing the performance measures cost $11.4 million in fiscal 2005. The remainder of our resources, $5.1 million, was used to perform systems audits to improve the use of public resources, as required by section 19(2)(d) and (e) of the *Auditor General Act*.

There are four sources that we use to identify potential audit work that could improve the use of public resources. These sources are:

- knowledge of public sector program objectives, risks, controls and accountability gathered over time and specifically to plan current financial statement audits
- information about transactions, assets and liabilities obtained while doing financial statement audits
- concerns expressed by MLAs, legislative committees and the public
- requests for assistance from management of the organizations we audit

We prioritize the potential issues to get to a manageable number of systems audits by considering whether our audit work would result in recommendations to improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.

We know we can be effective if we can persuade senior government managers to implement our recommendations; we also know that their receptiveness to our suggestions is influenced by their perception of our knowledge and experience and our understanding of their business. This is why we work with management to identify issues and recommend solutions before the issues become more serious problems.

Our follow-up work on recommendations from previous systems audits is an in-depth process because we reperform the audit testing to provide evidence that the standards (criteria) we used for our original audit are now fully met. We work with management to obtain plans and timetables for implementation of the recommendations they have accepted, keeping in mind the expectation that implementation should occur within three years.

4. Overview of the annual report

4.1 Guidance to readers

What the report does

This annual report describes:

- what the Alberta government and its ministries and other entities should do to improve their systems,
- the results of our financial statements audits of the government and its ministries and other entities, and
- the results of performing specified auditing procedures (see Glossary) on ministry performance measures.

Structure of the report

The report has a chapter for each ministry. If we have recommendations for a ministry, its chapter has four parts:

- ***Summary*** highlights what a ministry must do to improve its systems.

- ***Overview*** briefly describes a ministry and its agencies, boards, and commissions.

- ***Scope*** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems. We choose which systems to audit based on our assessment of how significant a system is and the risk that it may not meet certain criteria. The greater the significance and risk, the more likely it is that we'll audit a system—for more detail, see *Systems audit* in Glossary.

- ***Our audit findings and recommendations*** describes problems we found and solutions we recommend. We number what we consider to be our most important recommendations and require a response to them from the government.

If we have no recommendations for a ministry, the chapter is condensed.

The report also includes:

- a Cross-Ministry chapter applying to several ministries or the whole government—page 25
- a list of this year's recommendations—page 17
- a table of unimplemented recommendations over three years old—page 317
- a chapter on the Government of Alberta annual report—page 47
- an index—page 369
- a **Glossary** explaining specialized words and phrases we use in the report—page 363

Report subsections

In each chapter, the part called *Our audit findings and recommendations* has a subsection for each topic (we sometimes combine shorter subsections). If we have a recommendation on a topic, the subsection normally has the following five subheadings:

1. *Recommendation*
2. *Background*
3. *Criteria: the standards we used for our audit*
4. *Our audit findings*
5. *Implications and risks if recommendation not implemented*

To understand how these subsections fit together, it helps to know how we do a systems audit—for more detail, see *Systems audit* in Glossary.

4.2 Compliance with the law

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we only test some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

5. Acknowledgements

We thank the members of the public who have taken the time to express to us their concerns about government systems. Their insight and comments are forwarded to our audit teams for consideration as we plan our future audit work.

MLAs, and in particular the members of the Standing Committee on Public Accounts, have continued to provide us with suggestions for audits they would find useful in doing their work as legislators. We value receiving advice on what others believe is relevant and important and thank the legislators for their continued support.

The members of the Provincial Audit Committee are senior business executives with financial, business and governance skills. Their contribution of business and financial expertise is necessary for meeting today's governance requirements. We acknowledge and thank them for their wise counsel.

We appreciate the cooperation of those we audit and recognize it is crucial to our success. Senior management and board members of audited organizations continue to make time to meet with us and discuss our audit plans, findings and recommendations. In doing our work, we received the necessary information, reports, and explanations to our questions, with the exception noted below

Our audit of the enforcement systems at the Alberta Securities Commission, which is an audit in progress at the date of this report, was delayed by a legal challenge to our systems audit mandate. We will discuss the effect on the Office's operations, including the initial withholding of necessary information, reports, and explanations, and our costs to deal with the legal challenge, in the report we will issue on completion of that audit.

My staff, and the agent firms we work with, are dedicated to independent, objective and cost-effective auditing for the Legislative Assembly and the people of Alberta. They are committed to solutions and I thank them all for their thorough and professional work, much of which is evident in this annual report.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General

September 12, 2005

Audits and recommendations

🔑 **Indicates a key recommendation**

Green print—other numbered recommendations

Black print—unnumbered recommendations

Cross-Ministry

Page 28 🔑 **Recruiting, evaluating and training boards of directors—Recommendation No. 1**
We recommend that the Deputy Minister of Executive Council update Alberta public sector governance principles and guidance so that they are consistent with current good practices for recruiting, evaluating and training directors.

Page 28 🔑 **Recruiting, evaluating and training boards of directors—Recommendation No. 2**
We recommend that the guidance include a statement that governing boards evaluate and report publicly their own performance against both Alberta public sector principles and their own board governance policies.

Page 31 🔑 **Internal audit departments—Recommendation No. 3**
We recommend that the Deputy Minister of Executive Council provide audit committees with guidance for overseeing internal audit departments, including identifying related training.

Page 36 **Linking government and ministry business plans**
We recommend that the Department of Finance improve the links between the government and ministry business plans. We further recommend that the Department of Finance identify and describe core businesses in the government business plan.

Page 38 **Targets for Societal Measures—Recommendation No. 4**
We recommend that the Department of Finance develop guidance relating to the purpose, definition and use of societal measures.

Seniors Care and Programs

Page 58 🔑 **Developing and maintaining standards—Recommendation No. 5**
We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, update the Basic Service Standards for services in long-term care facilities and implement a system to regularly review and update the Basic Service Standards to ensure they remain current. (Report of the Auditor General on Seniors Care and Programs, No. 1—page 29)

Page 58 🔑 **Compliance with Basic Service Standards—Recommendation No. 6**
We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the Basic Service Standards. (Report of the Auditor General on Seniors Care and Programs, No. 2—page 31)

Page 59 **Effectiveness of services in long-term care facilities—Recommendation No. 7**
We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities. (Report of the Auditor General on Seniors Care and Programs, No. 3—page 34)

Page 59

Effectiveness of services in long-term care facilities—Recommendation No. 8
We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from the Regional Health Authorities and long-term care facilities to make accommodation rate and funding decisions. (Report of the Auditor General on Seniors Care and Programs, No. 4-page 35)

Page 61

Information to monitor compliance with legislation
We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, identify the information required from long-term care facilities to enable the Departments and Authorities to monitor their compliance with legislation. (Report of the Auditor General on Seniors Care and Programs—page 37)

Page 62

Determining future needs for services in long-term care facilities—Recommendation No. 9
We recommend that the Department of Health and Wellness, working with Regional Health Authorities and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan. (Report of the Auditor General on Seniors Care and Programs, No. 5—page 39)

Page 62

Report on progress implementing Continuing Care Strategic Service Plans
We recommend that the Department of Health and Wellness require Regional Health Authorities to periodically update and report on progress implementing their Ten–Year Continuing Care Strategic Service Plans. (Report of the Auditor General on Seniors Care and Programs—page 39)

Page 65

Standards for services in assisted living and other supportive living settings—Recommendation No. 10
We recommend that the Department of Health and Wellness and the Department of Seniors and Community Supports establish standards for care and housing services provided in assisted living and other supportive living settings. (Report of the Auditor General on Seniors Care and Programs, No. 6—page 45)

Page 66

Developing and monitoring standards for the Seniors Lodge Program—Recommendation No. 11
We recommend that the Department of Seniors and Community Supports:

1. update the Seniors Lodge Standards and implement a process to maintain them, and
2. improve its systems to monitor management bodies' compliance with the Seniors Lodge Standards (Report of the Auditor General on Seniors Care and Programs, No. 7—page 48)

Page 66

Effectiveness of Seniors Lodge Program—Recommendation No. 12
We recommend that the Department of Seniors and Community Supports:

1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program, and
2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges. (Report of the Auditor General on Seniors Care and Programs, No. 8—page 49)

Page 67

Determining future needs
We recommend that the Department of Seniors and Community Supports improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program. (Report of the Auditor General on Seniors Care and Programs—page 50)

Page 68

Effectiveness of the Alberta Seniors Benefit Program
We recommend that the Department of Seniors and Community Supports improve the measures it uses to assess whether it is meeting the objective of the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs—page 55)

Page 69

Information to determine program benefits—Recommendation No. 13
We recommend that the Department of Seniors and Community Supports obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs, No. 9—page 56)

Sustainable Resource and Environmental Management (SREM)

Page 72

SREM implementation plan—Recommendation No. 14
We recommend that the Deputy Ministers of Energy, Environment, and Sustainable Resource Development, with the help of the Sustainable Resource and Environmental Management (SREM) Project Office:

- publish a SREM implementation plan with projects, deliverables and deadlines, together with responsibilities and costs, and
- report annually to the Standing Policy Committee on their progress in implementing the SREM strategy envisaged in *Alberta's Commitment to Sustainable Resource and Environmental Management*.

Advanced Education

Page 82

Designating programs as eligible—Recommendation No. 15
We recommend that the Department of Advanced Education:

- consistently use graduation and employment data, along with loan relief benefit grant (LRB grant) repayments, in assessing which programs will continue to be eligible for student funding, and
- test the reliability of student graduation and employment data from private institutions with students who have student loans.

Page 83

Departmental compliance tests—Recommendation No. 16
We recommend that the Department of Advanced Education:

- test and evaluate the risk of issuing excessive loans and LRB grants because of invalid student eligibility information, and
- automate the process it uses to determine whether income variances are due to Department grants.

Page 84

Public post-secondary institutions purchasing—Recommendation No. 17
We recommend that the Department of Advanced Education work with post-secondary institutions to find opportunities to purchase goods and services at better prices.

Page 90

Research roles and responsibilities—Recommendation No. 18
We recommend that the University of Calgary define research management roles and responsibilities.

Page 91

Research policies
We recommend that the University of Calgary:

- ensure all research policies are current and comprehensive, and
- monitor compliance with ethics and intellectual property policies.

Page 92

Project proposals
We recommend that the University of Calgary and its faculties complete a business case for all large, complex research proposals.

Page 93

Project management
We recommend that the University of Calgary and its faculties:

- ensure researchers comply with sponsors' terms and conditions, and
- use project management tools for large, complex projects to ensure research is cost-effective.

Page 94

Accounting for research revenues and expenditures
We recommend that the University of Calgary improve financial controls on research accounts.

Page 97

Information technology planning and governance—Recommendation No. 19
We recommend that Athabasca University improve its information technology planning and governance by:

- completing the definition of its overall information technology strategy, and preparing and implementing a plan to achieve the strategy,
- adopting a formal information technology internal control system framework,
- creating an overall steering committee to manage information technology.

Page 99

Cost tracking system
We recommend Athabasca University implement a system to quantify the costs of developing and operating Information Technology (IT) systems.

Page 100

Retention and severance agreements
We recommend that the Mount Royal College Board of Governors examine its governance process to ensure that committee decisions, which are not ratifications of management decisions, be confirmed at the board level.

Page 100

Retention and severance agreements
We recommend that the Governance and Human Resources Committee of the Mount Royal College Board of Governors ensure that minutes of meetings include all its decisions and supporting reasons.

Page 101

Governance and Human Resources Committee Charter
We recommend that the Mount Royal College Board of Governors clarify in the Governance and Human Resources Committee Charter the authority of the Governance and Human Resources Committee to make all compensation decisions for vice-presidents.

Page 102

Budget monitoring
We recommend that Lakeland College improve the monitoring of actual results in comparison to budget.

Page 103

Billing processes
We recommend that adequate processes be implemented so that students are accurately billed when they register for a program and overdue accounts can be followed up on a timely basis.

Page 104

Computer control environment
We recommend that Grant MacEwan College resolve identified deficiencies and strengthen the overall control framework in the Information Technology (IT) environment.

Agriculture, Food and Rural Development

Page 113 **Grant management system—Recommendation No. 20**
We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs. (*2000–2001*—No. 3)

Page 116 **Awarding Beginning Farmer Loans—Recommendation No. 21**
We recommend that the Agriculture Financial Services Corporation:

- clearly define eligibility criteria for the Beginning Farmer Loans program.
- document its evaluation of the loan applicant against the program eligibility criteria.
- analyze the borrower's financial condition before approving the loan in accordance with its procedures.
- monitor accounts in arrears in accordance with its procedures.
- complete an analysis to support the level of program fees charged.
- monitor and evaluate the borrower against the eligibility criteria required to earn the interest rate discount.

Page 118 **Managing the Beginning Farmer Loans program—Recommendation No. 22**
We recommend the Agriculture Financial Services Corporation:

- develop a human resource plan for lending that identifies the staff and skills required to deliver farm lending programs.
- develop measures to assess whether the objectives of the Beginning Farmer Loans program are being met.
- monitor the operational plan against the results achieved and report on those results.

Page 120 **Administering the Canadian Agriculture Income Stabilization program—Recommendation No. 23**
We recommend the Agriculture Financial Services Corporation improve controls over the administration of the Canadian Agricultural Income Stabilization program by:

- documenting its policies and procedures.
- strengthening its claim verification procedures.
- maintaining sufficient documentation on file.
- developing criteria for waiving the application of the structural change.
- developing criteria to identify high-risk participants.
- testing spreadsheets before implementing them.

Page 123 **Testing of advance payment methodology**
We recommend that, before making advance payments under the Canadian Agricultural Income Stabilization program, the Agriculture Financial Services Corporation thoroughly test its methodology for calculating the payments.

Children's Services

Page 129 **Contract approvals—Recommendation No. 24**
We recommend that the Ministry of Children's Services sign contracts (whether new or renewal) before contractors supply goods or services.

Page 130 **First Nation expense recoveries—Recommendation No. 25**
We again recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve. (*2001-2002*, No. 7)

Community Development

Page 137

Wild Rose grants to Applewood—Recommendation No. 26
We recommend that The Wild Rose Foundation review the results of our audit into the grants to Applewood Community Association and take appropriate action.

Page 142

Wild Rose Foundation's systems for the International Development Program
We recommend that The Wild Rose Foundation improve its grant systems for the International Development Program by:

- obtaining third party evidence that matching funds exist before approving grants,
- enhancing the review of accountability reports, and
- establishing a way to obtain assurance that grant funds are used as intended.

Education

Page 157

Savings generated by Learning Resources Centre—Recommendation No. 27
We recommend that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings.

Energy

Page 165

🔑 **Assurance on well and production data—Recommendation No. 28**
We recommend the Department of Energy:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data, and
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Page 169

🔑 **Assurance systems for volumetric accuracy—Recommendation No. 29**
We recommend that the Alberta Energy and Utilities Board explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

Page 173

Liability Management for Suspension, Abandonment and Reclamation Activities—Recommendation No. 30
We recommend that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

Environment

Page 180

Financial security for land disturbances—Recommendation No. 31
We recommend that the Ministry of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates (*1998–1999—No. 30*).

Finance

Page 193

🔑 **ATB Lending policy compliance—Recommendation No. 32**
We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies.
(*2002–2003*—No. 15)

Page 195 **ATB Branch operations compliance—Recommendation No. 33**
We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures. (*1999–2000*—No. 49)

Page 198 **Alberta Securities Commission: Hosting and working sessions policies**
We recommend the Commission update policies and improve controls over hosting and working session expenses.

Gaming

Page 203 **Awareness of grant programs available**
We recommend the Department of Gaming ensure the published information, such as on www.albertalotteryfund.ca/grants, for grant programs available, is complete.

Page 203 **Other Initiatives Program grants**
We also recommend the Department of Gaming develop guidelines for assessing Other Initiatives Program grants.

Page 205 **Review of accounting**
We recommend the Department of Gaming improve the timeliness of its grant monitoring.

Government Services

Page 212 **Implementation of project management framework—Recommendation No. 34**
We recommend that the Ministry of Government Services implement the recommendations of the Office of the Chief Internal Auditor on improving the planning and monitoring processes for the Registry Renewal Initiative.

Infrastructure and Transportation

Page 252 **Air Transportation program assessment—Recommendation No. 35**
We recommend that the Department of Infrastructure and Transportation complete and maintain a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objectives, user needs, and use policies.

Page 255 **Air Transportation booking procedures**
We recommend that the Department of Infrastructure and Transportation improve air fleet booking procedures and communication about the program to users.

Page 258 **Air Transportation public reporting—Recommendation No. 36**
We recommend that the Department of Infrastructure and Transportation publicly report fleet use details permitted to be disclosed by the *Freedom of Information and Privacy Act*.

Restructuring and Government Efficiency

Page 284 **Performance measures—Recommendation No. 37**
We again recommend that the Ministry of Restructuring and Government Efficiency:

- clearly define its performance measures and targets, and
- develop systems to monitor and report results.

(*2001–2002*—No. 22, *2002–2003*—No. 20)

Cross-Ministry

Summary: what we found in our audits

Systems

The Deputy Minister of Executive Council should update Alberta public sector governance principles and guidance so that they are consistent with current good practice for recruiting, evaluating and training directors. Guidance should state that governing boards should evaluate and report their own performance against both Alberta public sector principles and their own board governance policies—see page 26.

The Deputy Minister of Executive Council should provide audit committees with guidance for overseeing internal audit departments, including identifying related training—see page 31.

The Department of Finance should improve the links between the government and ministry business plans and identify core businesses in the government business plans—see page 36.

The Department of Finance should develop guidance related to the purpose, definition and use of societal measures—see page 38.

Overview

Systems that affect all or several ministries

This section is unique because it focuses on the results of our examination of government systems and programs that affect the whole government or several ministries.

Central agencies develop policies that ministries implement

A number of ministries, such as Executive Council and Finance, are central agencies with broad government responsibilities. These central agencies develop corporate policies, strategies and guidance for ministries to operate within. Other ministries, such as Municipal Affairs, Innovation and Science, and Restructuring and Government Efficiency, have responsibilities for programs that have a cross-ministry impact. Examples of these programs are disaster planning and information systems.

Ministries work together

The government encourages ministries to work together to solve common problems. This is evidenced by the cross-ministry policy and administrative initiatives that are identified in the government business planning process. Ministries also work together on other matters that require several ministries to achieve results.

Scope: what we did in our audits

1. We examined the processes to identify and recommend candidates for board appointment, to evaluate the performance of boards and individual directors, and to train new and existing directors in 20 organizations in the Alberta public sector. We looked at the processes followed by both the organizations and the associated government departments. We also examined the practices of internal audit departments in the Alberta public sector. In particular, we assessed the operation of 11 internal audit departments (9 were examined in detail) against leading internal audit practices. Further, we assessed progress in improving audit committee performance.

2. We assessed ministries' and the government's business plans.

3. We also examined the government's progress in improving:
    - integrated results analysis in annual reports
    - succession management processes
    - internal controls for access to the IMAGIS system

Our audit findings and recommendations

1. Governance

1.1 Recruiting, evaluating and training boards of directors

Background

Boards govern significant public sector organizations

Boards of directors govern over 100 organizations in the Alberta public sector. Many of these public sector organizations deliver significant services to, or protect, Albertans. The organizations are involved in diverse activities including banking, health care, education, regulatory management, and social services. These organizations have been established to assist government Ministers meet their public policy goals. The effectiveness of these organizations depends directly on how well their boards govern them. Good governance can only occur if capable and well motivated individuals are appointed as chairs and directors to these boards. Good governance also depends on chairs and directors receiving feedback on their performance against clear expectations and furthering their governance skills. We believe that effective recruitment, evaluation and training, conducted efficiently, are fundamental to successful board governance.

Criteria: the standards we used for our audits

To develop the criteria that we used to assess the processes, we drew on guidance in current literature. In the last few years, a great deal has been written on good governance. This includes guidance on the characteristics of individuals who would be excellent director candidates and on how to recruit them. Further guidance exists on evaluation and on training directors. Also, we used the current guidance that applies directly to the Alberta public sector. The two key documents are the *Public Service Commissioner's Directive on Recruitment for Agencies, Boards and Commissions* dated October 1, 1997 (the Directive) and a report entitled *Review of Agencies, Boards and Commissions and Delegated Administrative Organizations* dated April 30, 2001 (*Renner Report*). The following underlying principles summarize our criteria:

1. Recruiting systems identify candidates for directorship appointments who meet key characteristics such as integrity, competency in governance, relevant skills, and ability to fulfill their governance obligation. In particular, the systems result in boards that have the balance of skills and abilities to govern and chairs that are effective leaders.
2. Evaluating systems are based on clear expectations and provide meaningful feedback to help directors and boards to improve performance.
3. Training systems focus on enhancing directors' ability to govern by providing directors with knowledge of emerging governance practices and understanding of the organization, its environment, and legislation.

Also, we believe transparency is a fundamental principle. That is, boards need to account to stakeholders, through such means as an annual report, on how well they met relevant governance principles.

We focused the audit on boards appointed by the Lieutenant Governor in Council.

Recommendation No. 1

We recommend that the Deputy Minister of Executive Council update Alberta public sector governance principles and guidance so that they are consistent with current good practices for recruiting, evaluating and training directors.

Recommendation No. 2

We recommend that the guidance include a statement that governing boards evaluate and report publicly their own performance against both Alberta public sector principles and their own board governance policies.

Our audit findings

Practise varied according to the initiative taken

Substantially all directors expressed a desire to excel at meeting their obligations to govern well. In doing so, they want to improve their performance and that of their organization. Some organizations met or exceeded our criteria, while others did not. We saw examples of departments providing excellent support to boards in improving governance. Also, we found boards who took the initiative to improve their governance practices. The key finding is that in a good number of cases, but not all, initiative is being taken to improve governance.

Guidance needed on what good governance means

In our opinion the Alberta public sector must establish a common and current understanding of what good governance means. In the areas we examined, some provincial guidance has been published. The Renner Report recommends that ministers and boards enter into agreements on roles and responsibilities. The Report provides guidance on the content of a memorandum of understanding (MOU) and includes some aspects of good governance. The Directive provides guidance that assists in identifying good quality candidates for directorship and was best practice when it was implemented in 1993 and updated in 1997.

Guidance for director recruitment needs to be updated and followed

In our sample, however, approximately half of the organizations did not have a MOU. We also saw that the Directive for recruitment should be enhanced and commitment to its guidance should be reinforced, since it was not consistently being followed.

Approximately half of the organizations had deficiencies in their processes for evaluating boards and directors. Orientation training for directors was provided; however, the establishment of continuous training programs was inconsistent.

In our literature search, we noted that the amount of guidance on good governance has grown substantially in the last few years. This was largely in response to governance failures in the private sector which is why the guidance is expressed in private sector terms. Nevertheless, this new guidance provides important and relevant insight to opportunities to improve governance in the Alberta public sector.

Limited reporting on governance

Our audit found limited external reporting on boards' governance practices, although transparency is a cornerstone of Alberta public sector accountability. The importance of transparency has long been captured in one of the Government of Alberta's goals. The private sector's requirement for transparency of process and of compliance with sound governance practices should be an established expectation for Alberta public sector boards.

Additional recommendations

We issued a report to the government and boards on the results of our examination of the processes to recruit, evaluate and train board members. The full report is on our website at www.oag.ab.ca.

Challenges need to be addressed

In the report, we make additional recommendations that support the two key recommendations. If these additional recommendations are implemented, they will assist in addressing the two key recommendations. The specific recommendations address the following challenges:

- The need to ensure that the Directive for recruiting directors is consistent with current best practice.
- The importance of boards being transparent about their governance, in particular recruitment processes.
- The provision of guidance to assist boards in establishing performance expectations and evaluation mechanisms, including:
  - The need for clear expectations for each director
  - The importance of periodic performance evaluations for both individual directors and the board as a whole, and who should receive the results of the evaluation
- The need for efficient, relevant and effective training programs for directors.

Implications and risks if recommendations not implemented

Recruiting, evaluating and training processes can improve governance

Organizations are always at risk of not meeting their goals and of behaving unethically. Governance is how these risks can be managed. But good governance, producing effective and ethical organizations, does not just occur. Boards made up of directors who are capable and willing to govern need guidance to understand what it is that creates "tone at the top" and how governance is sustained and improved. If directors do not know what is expected of them, if they do not hear how well they are doing, and if they do not get training to improve their governance skills, then the effectiveness of their organizations is jeopardized. Organizations earn confidence in the state of their governance by publicly showing that their board recruiting, evaluating and training processes match current good practice.

The recruiting, evaluating and training processes will only be relevant if they help governing boards to improve their organization's effectiveness. However, since a director's time is limited, its use must be productive. Each organization must therefore focus on improvements that maintain their directors' efficiency.

1.2 Internal audit departments

Background

Internal audit provides needed assurance

We found that stakeholders in both the public and private sector increasingly value the oversight role performed by audit committees. Professional literature on governance often refers to this role as a fundamental part of sound governance. For example, an audit committee's role often includes the oversight of risk management and internal control systems, two critical elements for good governance. To fulfill their oversight responsibilities audit committees need assurance that all significant risks have been identified and effectively mitigated. Audit committees look to their organization's internal audit department as an important source of the needed assurance. Audit committees need to set clear expectations for their internal audit departments including that the departments conform to International Standards for the Professional Practice of Internal Audit (IIA Standards).

Internal audit is important to the public sector

The Alberta public service recognizes the importance of internal audit. A number of organizations, such as the Universities of Alberta and Calgary, the Workers' Compensation Board and ATB Financial have had internal audit departments for many years. In May 2003, the Alberta government established the Office of the Chief Internal Auditor (OCIA). The OCIA provides internal audit services to all government ministries. Other Alberta public sector organizations have recently established or are now establishing internal audit departments.

As a result of the changes within internal audit, we decided to examine the performance of internal audit departments in Alberta public sector organizations. In particular, we assessed the operation of the 11 departments selected (9 were examined in detail) against leading internal audit practices.

Recommendation No. 3

We recommend that the Deputy Minister of Executive Council provide audit committees with guidance for overseeing internal audit departments, including identifying related training.

Our key conclusions

Internal audit needs to improve

In general, internal audit departments need to improve, in some cases significantly. This is not surprising for new internal audit departments. To assist each organization audited we provided them with a copy of our overall report and a report tailored to their situation. The overall report is available on our website at www.oag.ab.ca. In the report specific to the organization, we included recommendations on areas the internal audit department needed to improve.

Audit committees need to champion internal audit

A common theme evolved from our work—audit committees need to support their internal audit department by:

- setting clear performance expectations focused on results
- ensuring terms of reference for the audit committee and for internal audit are aligned and consistent with IIA Standards
- demanding that internal audit practices in their organization comply with IIA Standards and follow best practices
- requiring auditors to focus on key risks of the organization
- ensuring that the department has the necessary resources to meet its terms of reference

The need to champion internal audit will require audit committees to recognize that internal audit is an important resource to them, to actively work with leaders of internal audit and to gain a deeper understanding of internal audit standards.

Public sector internal audit departments can improve their effectiveness and efficiency by implementing best practices and improving relationships with management. They should also adopt policies and procedures that clearly define their audit methodology and performance expectations and include a code of conduct.

As a significant stakeholder, the government has a role in assisting audit committees in their oversight of internal audit departments in the public sector.

Criteria: the standards we used in our audit

We developed criteria that, in our opinion, if met by an internal audit department would demonstrate that it was effective, complied with IIA Standards and met best practices. We drew the criteria from sources such as the pronouncements of the Institute of Internal Auditors (IIA), Auditors General in other jurisdictions, and current literature. We provided the criteria to each organization we audited for their comments. All the organizations generally agreed with our criteria. The criteria, addressed the areas of:

- Audit committees expectations, direction and accountabilities
- Relationship of internal audit departments to their organization
- Internal audit skills, capabilities and audit approach

Our audit findings

Quality of audit work varied

The quality of audit work varied among the internal audit departments we examined. Newer departments generally had better terms of reference, but lacked resources and the required skills. Well established departments tended to be further along in developing policies and procedures and in assessing risks across their organization. However, all departments face the challenge of adapting their practices in areas where the IIA has provided new guidance. We noted some good practices and examples of effective auditing. We also observed that internal audit departments are willing to work together to share good practices.

Internal auditors are facing change

As we have stated in other reports on governance, a great deal of change is occurring with governance. The pressure for change is affecting internal audit departments. Our findings are consistent with the observation that internal auditors, in many cases, are at the start of the change. We present further detailed findings using the three areas that our criteria addressed.

Long-term plans and performance measures not required by terms of reference

Audit committee's expectations, direction and accountabilities—A couple of the internal audit departments we examined do not have terms of reference in place that define the purpose, authority and responsibility of the internal audit department. There is not proper alignment between the terms of references of internal audit departments, the terms of reference of audit committees and management practices, in many cases. None of the terms of references require internal audit departments to develop long-term strategic plans and most do not require any reporting against agreed to performance measures. A long-term internal audit plan is essential to demonstrate alignment of proposed audits to the organization's risks, highlight strategic internal audit initiatives and develop annual audit plans.

Internal Audit departments need to be independent

In a few cases, internal audit is performing management functions that could impair the independence and objectivity of the internal audit of management

department. There are also three cases where internal audit departments' independence is compromised as internal audit leaders either do not report directly to audit committees, or do not meet regularly with their audit committees. Internal audit departments should be organizationally independent of management and report directly to audit committees.

We did observe a good practice in that two of the leaders of internal audit departments had regular monthly meetings with the Chair of their audit committee to discuss developments and progress.

Plans need to focus on key risks

The internal audit plans we examined were often only lists of intended projects making it difficult for audit committees to determine whether the plans are risk-based, or if there are resource or skills gaps. Four of nine internal audit departments we examined have defined their audit universe[1] and have completed a risk assessment. But they have not prepared a long-term plan. A long-term plan would provide the audit committee and management with information linking the audit universe to the planned audits. Through effective risk assessments and planning, internal audit can show that it is focusing on the key risks that matter to the organization. Also, plans will demonstrate the connection between the focus of internal audit and the organizations' business objectives.

Internal audit departments are not regularly reporting to audit committees on progress against their plan. Regular reporting allows audit committees to assess internal audit's effectiveness, priorities and resource allocation.

Increased value required from internal audit

Relationship of internal audit departments to their organization—Key executives in more than half the organizations and audit committees in a third of the organizations stated that they expected more value from internal audit. We also heard from three internal audit leaders that their department would benefit from increased support from senior management or their audit committees. If the internal audit department does not show that it can add value its recommendations may not be implemented. Thus, significant risks may not be mitigated.

Co-developed plans and timely, risk-rated reports needed

A co-developed approach to assessing risk, project planning that involves both the internal audit department and management, and vetting recommendations with the audit committee and senior management would increase the success of internal audit departments in showing value. We also heard from management and audit committees that they valued timely internal audit reports. Two internal audit departments did not complete significant audits promptly. Few departments disclosed in their reports that they followed IIA standards or rated recommendations as low, medium, or high-risk to make audit reports more meaningful to the readers.

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[1] Audit universe is defined as a collection of all the processes, programs, projects and other units of the organization that are relevant to the strategic plan and have sufficient importance and/or significance to achieving the plan.

Recommendations were supported and agreed

Our sample of 11 audit files from 3 organizations indicated that the internal audit departments' recommendations were supported by audit evidence and were generally accepted by management. However, given the deficiencies in the project plans we were unable to determine if all possible issues were identified in the audits.

Few supplementary codes of conduct

Internal audit skills, capabilities and audit approach—Only four internal audit departments have developed a code of conduct that adequately covers the four principles appropriate for internal auditors—integrity, objectivity, confidentiality and competency. Although many of the organizations audited had a corporate code of conduct and the IIA has a code of ethics, internal audit departments should supplement these codes with a code of conduct that takes into account the uniqueness of the internal audit department and its function within the particular organization. Internal auditors should sign an annual commitment to these codes.

Internal audit departments want to increase skill capacity

Over half of the audit departments indicate that they needed auditors with specialized skills; for example, skills for auditing information technology systems, risk management processes, and specialized financial transactions specific to the organization. Three organizations were recruiting an internal audit leader. Two organizations indicated that they wanted to increase their internal audit resources. One department did not have an adequate plan for their training requirements.

Few documented policies, procedures and methodologies

Fewer than half of the departments examined had adequate documentation of their policies, procedures and audit methodology to provide their internal auditor staff with the necessary level of guidance and support. One third of the departments we examined are now documenting or updating their policies, procedures and audit methodologies.

Most departments did not have a quality assurance program

Only one internal audit department had carried out a quality assurance program. That department carried out a self-assessment which did not involve an independent review. The IIA Standards require an independent review at least every five years. Quality assurance programs provide internal audit leaders and audit committees with assurance that internal audit practices meet IIA Standards. Our sample of 11 audit files indicated that internal audit departments need to consistently document their project risk assessments, the criteria used for individual audits, and the audit file reviews. A quality assurance program would reinforce the need for internal audit staff to comply with these and other standards and leading practices.

Implications and risks if recommendation not implemented

Audit committees increasingly rely on internal audit for assurance on the design and operating effectiveness of organizations' systems of internal control. If internal audit departments do not follow their profession's standards or adopt relevant best practice, then this reliance may be unwarranted. Also, audit committees may not be aware of potentially significant risks or risks that have not been mitigated. Thus, audit committees may not fulfill their mandate and the organization may not achieve its objectives.

1.3 Audit committees—satisfactory progress

Proposed guidance developed for audit committees

Previously, we recommended that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector (2003—No. 1). In March 2005, Executive Council communicated guidance to all deputy ministers in a document entitled Proposed Guidance for Audit Committees of Government of Alberta Agencies, Boards and Commissions. The guidance is intended to offer best practices on audit committee operations and be flexible enough to be implemented by public sector agencies responsible for governing organizations with a wide-range of differing missions and purposes.

The guidance covers the establishment, roles, skills, independence, membership, and size of an audit committee. As well, information is provided to help audit committees oversee auditors.

One year implementation period

Executive Council outlined an implementation period of one year for all board-governed government agencies. Deputy ministers are required to monitor the status of implementation.

Guidance is valuable

The CCAF[2] has identified the guidance as highly valuable advice for three audiences:

- Ministers and deputy ministers responsible for overseeing governance bodies of the Government of Alberta's agencies, boards and commissions
- Boards and board chairs of Alberta's agencies, boards and

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[2] The CCAF is a not-for-profit organization which conducts research on public sector matters such as governance, accountability, management practices and audit.

commissions

- Members of the audit committees of Alberta's agencies, boards and commissions

The guidance as proposed will completely address our recommendation once it has been implemented.

2. Business Planning

2.1 Linking government and ministry business plans

Recommendation

We recommend that the Department of Finance improve the links between the government and ministry business plans. We further recommend that the Department of Finance identify and describe core businesses in the government business plan.

Background

The *Government Accountability Act* (the Act) requires the government and ministries to prepare three-year business plans. Section 7(3) of the Act states that the government business plan must include: the mission, core businesses and goals of the Government, and links to the ministry business plans. Section 13(3) of the Act requires ministry plans to include similar components, including links to the government business plan.

Criteria: the standards we used for our audit

- Government and ministry business plans should comply with the Act.

- The Government of Alberta business plan should include links to the ministry business plans, and the goals and strategies in ministry business plans should align with the goals and strategies in the government's business plan and government policy direction. Ministries should ensure their strategies achieve the goals in the government business plan.

Our audit findings

Plan does not clearly link to ministry plans

Links between government and ministry business plans—The linkage of strategies in the 2005–2008 government business plan (the Plan) to ministry business plans is not clear and complete.

Under each government business plan goal, the government presents the strategies it will ask ministries to implement. The government's *Ministry Business Plan Standards* for the 2005–2008 plans state, "the link between the ministry business plan and the Government of Alberta business plan is through the Expense by Function in the fiscal plan." The Plan states that the first 13 goals "are linked to the government's *2005–2008 Fiscal*

Plan." Under each of the first 13 goals in the Plan, a "link to the fiscal plan" section shows the annual provincial spending directed at achieving the goal and lists the ministries that contribute financially to achieving the goal.

Areas where links are incomplete

Linking the government plan to the ministry plans "through" the fiscal plan does not provide a complete picture for readers. This lack of completeness is evidenced by the following:

- Although the Plan contains 14 goals, the 2005–2006 Expense-by-Goal-by-Ministry chart in the Plan (page 61) shows only 13 goals. Goal 14 in the Plan includes 17 strategies, and 6 ministry plans state that their activities support achievement of goal 14.
- One ministry (Seniors and Community Supports) shows $39 million in funding for goal 8 on the 2005–2006 Expense-by-Goal-by-Ministry chart in the Plan, although the ministry plan does not indicate that it supports that goal.
- The government's *Ministry Business Plan Standards* for the 2005-2008 plans require ministry plans to demonstrate how they support one or more of the government business plan goals. However, we found significant variation in the detail and focus of the information in the section of ministry 2005–2008 business plans titled, "Link to the Government of Alberta Strategic Plan." As a result, this section is confusing for the reader, when instead it should provide a clear connection between the ministry business plan and government's goals and priorities.

Looking ahead to 2006–2009 plans—We also noted that the new *Ministry Business Plan Standards* for 2006–2009 no longer require that ministries demonstrate how they support achievement of the goals and the "areas of opportunity" in the government plan. Instead, ministries are required to "link" to the goals by identifying the name and number of the goal in the government plan. Further, the ministry plan may show a link to only those goals for which they are identified in the "link to the fiscal plan" section in the government plan.

Core businesses—the Plan does not explicitly name its core businesses, nor does it include any reference to core businesses.

The Act requires the government plan to include core businesses

The Plan groups goals under five headings that include four "key opportunities" (alternative wording includes "pillars" and "areas of opportunity") and "capital plan." The four key opportunities are described in the section of the *Budget 2005* documents called, *Today's Advantage, Tomorrow's Promise: Alberta's Vision for the Future*, as groups of strategies that the government plans to take over the next 20 years to achieve its strategic vision. While this longer-term view is helpful for the reader in understanding government's strategic direction, the Plan should also specify and describe its core business, defined in the *Ministry Business Plan Standards* as "ongoing key responsibilities that support the mission and provide a framework for achieving results and allocating resources," to demonstrate that it is meeting the requirements of the Act.

Implications and risks if recommendation not implemented

Unless the link between the government and ministry plans is improved, and ministries' plans demonstrate the significant steps they will take to achieve the goals in the government plan, readers may not fully understand how, and by whom, government goals will be achieved.

If the government business plan does not identify core businesses, there is a risk that the primary responsibilities of government—what it is accountable for delivering—will not be properly reflected in government goals and strategies.

2.2 Societal measures

Recommendation No. 4

We recommend that the Department of Finance develop guidance relating to the purpose, definition and use of societal measures.

Background

New type of measures, societal measures, do not have targets

We carried out a review of the societal and performance measures planned for *Measuring Up 2006* to ensure that the measures are sufficient to assess performance in relation to goals. The *2005–2008 Government of Alberta Business Plan* (the Plan) includes these two types of measures. Previous government business plans have included performance measures, but have not included societal measures.

The Plan indicates that societal measures track broad social and economic trends and that performance measures track the progress being made in priority areas related to goals. Performance measures have annual targets that the government reports its performance against each year. The Plan also indicates that "taken together, the societal and performance measures help the reader to assess the current well-being of the province with respect to the goals and whether the government's strategies are effective in contributing to the achievement of the goals in the short term and long term."

Management indicated that although the Plan does not include targets for the societal measures, the "What it means" section of the goal provides a general indication of expected performance for societal measures.

Criteria: the standards we used for our audit

- Performance measures and targets are clearly defined and linked to the core businesses and goals of an organization.
- Performance results are reported in relation to the business plan.
- Adequate guidance is provided to those preparing business plans.

Our audit findings

The Act requires measures and performance targets

The Act in section 7(3) states that the government business plan must include the measures to be used in assessing the performance of the government in achieving its goals and the performance targets set by the government for each of its goals. When measures, such as societal measures, do not include targets, it is difficult to assess performance in relation to a goal. Targets are a critical component of measures as they define the expected results. Together, a performance measure and its target provide a concrete statement of what will be accomplished over an expected period of time.

We reviewed the "What it means" section of the goals that included societal measures. We found general indications of expected performance such as "maintaining and improving" and "adequate income." These statements of expected performance were only loosely related to the societal measures, and not clear in terms of the direction and magnitude of the expected change in performance. It was also not clear if the performance implied in the "What it means" section covered all three years of the business plan. When the business plan does not include a clearly defined expected result, then various and conflicting interpretations are possible. Was "senior average total income" of $29,536 for 2001 what the government expected based on its strategies?

Societal measures are necessary to assess performance for 6 of 14 goals.

We also found that for 6 of the 14 goals in the Plan, the societal measures were necessary to assess performance relating to the goal. For example, for goal 1, *Alberta will have a diversified and prosperous economy*, the three performance measures presented for that goal are not sufficient to assess performance. The reader of the Plan requires the three societal measures (Gross Domestic Product, Distribution of Gross Domestic Product, Personal Disposable Income) in order to assess achievement of the goal. The reader will have difficulty comparing the results for these three measures to the government's expectations as there are no targets in the Plan for the measures.

Little guidance is available relating to societal measures.

The concept of societal measures was developed as *Budget 2005* was prepared, and their use is described in the budget document. If the government continues to use such measures at the government-wide and ministry levels, it should provide guidance to ministries in the *Ministry Business Plan Standards* concerning their purpose, definition and use. In our view, societal measures without targets are not a substitute for good performance measures.

Implications and risks if recommendation not implemented

Without adequate performance information, there is a risk that the government will not meet its goals and will fail to achieve improved outcomes.

3. Integrated Results Analysis

Results Analysis in ministry annual reports—Implemented

We followed up our prior year recommendation (2000—No. 4) that ministries enhance results analysis in their annual reports by providing an integrated analysis of financial and non-financial information.

Criteria: the standards we used for our audit

Ministry annual reports present an integrated analysis of financial and non-financial performance information for each core business including:

- actual and planned costs and an explanation of significant variances
- a discussion of significant financial statement variances
- goals, strategies and performance measure results and an explanation of significant variances

Our audit findings

Linking core business to goals and measures is necessary to prepare Integrated Results Analysis

Previously we found that ministries had made satisfactory progress in implementing this recommendation by improving their results analysis in the 2002–2003 ministry annual reports. We found that ministries that did not link core businesses to goals and measures in their 2003–2005 business plans had difficulty preparing an integrated results analysis in their 2002–2003 reports.

Depth of analysis of variances could be enhanced

In our review of the draft 2004–2005 annual reports we found that substantially all ministries were able to link core businesses to goals and measures. As a result, we were able to conclude that the criteria were met. The structure and processes, the basic building blocks to prepare such an analysis, are in place on a ministry wide basis. We found an overall improvement in the quality of the 2004–2005 integrated results analysis, but note that the depth of the analysis of variances could be enhanced. We will continue to monitor the quality of integrated results analysis at the ministry level as part of our performance measures projects.

Integrated Results Analysis describes results achieved for money spent

We encourage ministries to continue to focus on preparing an analysis which discusses the results achieved for money spent, in a manner that is relevant and understandable to Albertans.

4. Succession management in the Government of Alberta

Background

Succession management is the process organizations use to anticipate and secure an adequate supply of talent for future needs. Succession management is an important issue for the Government of Alberta as a significant number of senior government employees are eligible to retire over the next five years and there is increased competition for scarce employee resources.

Last year, we examined the government's succession management systems. In our *2003–2004 Annual Report*, we recommended that the Personnel Administration Office (PAO), working with the deputy ministers:

- provide further assistance to departments to facilitate developmental opportunities for employees between departments.
- develop performance measures and targets to assess the effectiveness of strategies used to attract, develop and retain employees for all cross-ministry vulnerable and critical roles.
- provide additional guidance and support to help all departments implement succession management systems.

Our audit findings

Assistance to departments to facilitate developmental opportunities—implemented

Corporate system to facilitate developmental opportunities

PAO and Deputy Ministers have developed a system to facilitate development opportunities for executive management employees between departments. PAO launched the *Executive Mobility* program in April 2005 and worked with all departments to identify employees and potential development opportunities for the program. When executive managers participate in the *Executive Mobility* program, this in turn creates other developmental opportunities within individual departments for other staff.

Performance measures and targets to assess the effectiveness of succession management strategies—implemented

Plan measure focuses on leadership positions over long-term

PAO set "suitable candidates are available to compete on identified leadership critical positions" as the measure of achievement of the 2005-2008 Corporate Human Resource Development Strategy objective "departments anticipate and respond to future human resource needs."

Performance information to evaluate effectiveness of strategies

Departments identify critical executive management positions and report on whether suitable candidates will be available to compete on these positions within three years and within five years. PAO reports this information as part of its report on the Strategy. PAO has compiled performance information from other sources such as evaluations of development programs and trends in recruitment and retention for hard to recruit positions. PAO is using this information to evaluate the effectiveness of strategies used to attract, develop and retain cross ministry critical and vulnerable positions.

Succession management guidance—satisfactory progress

PAO gives guidance to departments to implement the framework

PAO has made satisfactory progress in implementing this recommendation. This year, PAO provided departments with additional guidance and support on implementing succession management systems. PAO provided training on the government's competency model to human resources personnel to give them guidance on defining the competencies and skills required for critical and vulnerable roles. PAO also drafted an implementation guide for succession management that illustrates, through examples from departments, how to implement each step of the succession management framework.

PAO plans to communicate with and educate departments on the use of the template and the implementation guide. They also told us they will work with the government-wide team established to strengthen government's succession management practices, by promoting sharing of information on best practices.

Additional training will be provided

To finish implementing this recommendation, we would expect PAO to issue the succession management implementation guide to departments and provide training on the use of the guide.

5. Internal control

5.1 Internal control systems—satisfactory progress

Background

Weaknesses in control systems existed

In our *2001–2002 Annual Report* (No. 1—page 23), we recommended that the Department of Finance, work with all other departments in the government, to improve internal controls, in particular, access controls to IMAGIS, the use of procurement cards, and compliance with sections 37 and 38 of the *Financial Administration Act* (FAA). Last year, we reported that the government implemented adequate controls for the use of procurement cards, and compliance with the FAA. We also reported that the government was making satisfactory progress implementing access controls to IMAGIS.

Our audit findings

Satisfactory progress in improving access controls

The government continues to make satisfactory progress improving access controls to IMAGIS. A subgroup of the Human Resources Directors Council completed its review of access controls in the IMAGIS human resources module and created new roles to avoid incompatible functions assigned to users. The group expects to assign the new roles by March 2006. A subgroup of the Senior Financial Officers Council is reviewing access controls in the IMAGIS financial module to identify incompatible roles of users, establish compensating controls to mitigate risks of assigning incompatible functions to users, and develop guidelines for departments to follow. The group expects to complete the review by March 31, 2006.

To implement our recommendation, the government needs to complete its review of access controls to IMAGIS and implement improvements to controls that are identified by the review.

5.2 Expense reimbursements in public sector agencies, boards and commissions

Background

We examined nearly 1,000 travel and hosting expense reimbursement claims submitted by approximately 260 members of management and staff at 19 agencies, boards and commissions. These travel and hosting expense claims represented a total of approximately $1.2 million in reimbursements. Claims submitted at the Alberta Securities Commission are discussed at page 198.

Our audit findings and recommendations

We did not find any evidence of inappropriate travel or hosting expenses reimbursed to management or staff, other than with respect to the Alberta Securities Commission discussed on page 198. However, we did find that controls over processing expense claims could be improved. Following are some common recommendations that we made to the organizations:

- **Claims should be approved by a person at a higher level than the claimant**—some expense claims were approved by a person at a lower level than the claimant.
- **Claims should contain sufficient original documentation to confirm the nature of goods and services purchased**—in some instances there was a lack of documentation to confirm what goods or services were purchased. In other cases, copies or faxes were accepted as evidence of payment.
- **Organizations should have a formal hosting policy**—in some organizations, there was no policy to provide guidance in purchases of gifts and other hospitality expenses.

- **Organizations with corporate credit cards should have a policy to govern their use**—although we saw no personal use of corporate credit cards, a clear policy detailing cards use would mitigate the risk of abuse.

The Office of the Chief Internal Auditor examined expense reimbursements in government departments.

6. Consulting contracting practices

Background

In 1998, the Ministry of Executive Council introduced the *Accountability Framework for Contracting*, which outlined the elements of contracting systems that departments should include in their own contract management systems. The Senior Financial Officers' Council issued best practices guidelines in 1999 to help departments implement the government contracting framework. In February 2005, the Senior Financial Officers' Council also issued additional guidance for contracting practices within the government.

Last year, we examined contracting systems at the Departments of Health and Wellness and Restructuring and Government Efficiency. Because of the results of this work, we planned to examine the government policies and processes of all departments for selecting, managing and monitoring consulting contracts.

Our work so far and observations—We reviewed the Accountability Framework for Contracting and the related guidance provided to departments and concluded that this information provides a good basis for departments to follow in contracting practices.

During the year, Treasury Board asked the Office of the Chief Internal Auditor (OCIA) to conduct a detailed review of contracting practices at all departments. The focus of OCIA's examination was on sole-sourced consulting contracts.

To avoid duplicating efforts, we have decided to use the work of OCIA in examining the consulting contracting systems of departments. We have started reviewing OCIA's work, but will not be able to use their work until they complete and issue their reports to the government and the departments. In addition, currently all departments are at various stages of revising and implementing their contracting policies.

Our plans for the future—After OCIA has completed their reports and the departments have revised and implemented their new contracting policies, we will examine the contracting systems of departments. The purpose of our audit will be to confirm that departments have implemented appropriate control systems for selecting, managing and monitoring consulting contracts.

Government of Alberta Annual Report

Summary: what we found in our audits

Performance reporting

Reporting entity issue needs to be resolved

The government still needs to adopt the new reporting entity standard that is effective April 1, 2005. The consolidation of presently excluded entities will be significant for the consolidated financial statements of the government and four ministries—see page 49. Our auditor's reports on these ministry financial statements include information to highlight the effect of including these excluded entities.

Unqualified opinion for government and 24 ministries

Our auditor's reports on the Government of Alberta's consolidated financial statements and all 24 ministry financial statements are unqualified.

No exception—Measuring Up: Exceptions in three ministries

We found no exceptions when we applied specified auditing procedures to the performance measures in the *Measuring Up* section of the Government of Alberta Annual Report. We found exceptions in three ministries when we applied specified auditing procedures to ministry performance information in the 2004–2005 ministry annual reports—see page 51.

Overview

This section highlights the results of our examination of the Government of Alberta Annual Report.

Minister of Finance's responsibility

The Minister of Finance is responsible for preparing the government fiscal and business plans and the consolidated annual report under the *Government Accountability Act*.

Governments business plan, fiscal plan and annual report

The government's business plan identifies its goals, key strategies, and measures and targets. The government's fiscal plan outlines the consolidated budget to achieve the desired results in the business plan. The Government of Alberta Annual Report shows the results achieved against the targets set in the business and fiscal plans.

24 ministries contribute to government results

The Alberta government has 24 ministries. Ministers and deputy ministers are responsible for managing their ministries and contributing to the achievement of government goals. Ministry business plans and annual reports provide information on the ministry's contribution to government results.

2004–2005 financial results

In 2004–2005, the Government of Alberta received approximately $29 billion in revenue and spent approximately $24 billion. The following summarizes the significant revenues and expenses:

	(millions of dollars)
Revenues	
Income and other taxes	$ 10,178
Non-renewable resource revenue	9,744
Transfers from Government of Canada	3,219
Other	6,187
	29,328
Expenses	
Health	9,071
Education	6,384
Other	8,874
	24,329
Excess of revenues over expenses for the year	$ 4,999

Government website

For more information on the government and its programs, see its website at www.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the government's consolidated financial statements and all ministry financial statements for the year ended March 31, 2005. We also followed up our previous recommendation to improve corporate government accounting policies.

We applied specified auditing procedures to the government's performance measures reported in the Measuring Up section of the government's annual report and in all ministry annual reports.

Our audit findings and recommendations

1. Performance reporting

1.1 Financial statements

Unqualified opinion on government's consolidated financial statements

We issued an unqualified auditor's report on the government's consolidated financial statements for the year ended March 31, 2005. These consolidated financial statements include the following entities of the government:

- departments—24
- regulated funds—12
- provincial agencies—35
- commercial enterprises—5
- commercial Crown-controlled corporation—1
- non-commercial Crown-controlled corporation—1
- Offices of the Legislative Assembly—6

The above list does not include the subsidiaries of provincial agencies, commercial enterprises, and Crown-controlled corporations.

Unqualified opinion on 24 ministry financial statements

Our auditor's reports on the financial statements of all 24 (2004–22) ministries are unqualified. Our auditor's reports on four ministry financial statements (Advanced Education, Education, Health and Wellness, and Municipal Affairs) include information explaining the accounting principles for defining the reporting entity. Further detail on these issues is in section 1.2.

1.2 Corporate government accounting policies—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 2—page 40), we again recommended that the Department of Finance change the corporate government accounting policies to improve accountability.

Our audit findings

One issue resolved—excluded operations

The Department of Finance, working with ministries, has resolved accounting policy issues relating to excluded operations. The financial statements of the Ministry of Seniors and Community Supports now include the surplus funds retained by management bodies for the operation of social housing projects. On April 1, 2005, the Ministry of Community Development started to record the revenues, expenses and surplus funds from the operations of certain cultural facilities.

One issue to resolve—reporting entity

One matter remains unresolved: adopting the new reporting entity standards. This is significant for the Government of Alberta's consolidated financial statements and the ministries of Advanced Education, Education, Health and Wellness, and Municipal Affairs.

Government is working on plans to expand the reporting entity

The Government of Alberta is making plans to adopt the new reporting entity standard starting in the fiscal year beginning April 1, 2006. To achieve this, the government has established several working committees to determine whether it controls the various entities currently not included in the reporting entity and to resolve policy issues related to implementation of the new standard. These committees have reviewed the entities, and have determined which entities the government controls. Treasury Board needs to approve the plan for expanding the reporting entity. The government is also currently working on a test consolidation of the expanded reporting entity for the year ended March 31, 2005.

An expanded reporting entity would result in a significant increase in consolidated net assets

In our auditor's reports on the financial statements of the ministries of Advanced Education, Education, Health and Wellness, and Municipal Affairs, we included information about the definition of the government reporting entity. In each case, we made an estimate of the amount by which assets and liabilities would increase if certain excluded entities were included. This information, which shows that net assets would increase significantly, is presented solely to provide users of those Ministry statements with an approximation of the magnitude of the effect of expanding the reporting entity. We were not restating the reported results, or prejudging the accounting method that the government may use to include certain entities. The new standard prescribes two acceptable methods for consolidating previously excluded entities, one of which is a transitional method for the short term, and the two methods produce different results. Therefore, we caution against combining our estimates in those four auditor's reports to determine the impact on the Government of Alberta's consolidated financial statements.

In the next year, we will review the work of the committees and ministries to assess compliance with the new standard.

2. Performance measures

No exception in our report on the Government's annual report

We found no exceptions when we applied specified auditing procedures to the performance measures in the *Measuring Up* section of the Government of Alberta's Annual Report.

Exceptions in our reports for three ministries

We found no exceptions when we completed specified auditing procedures on the performance information in the 2004–2005 ministry annual reports for 21 ministries. However, our reports for three ministries (Finance, Innovation and Science, and Seniors and Community Supports) noted exceptions. These exceptions are described in the sections for those ministries in this *Annual Report*.

Seniors Care and Programs

Summary

On May 2, 2005, we released the *Report of the Auditor General on Seniors Care and Programs* (the *Seniors Report*), available on our website[1]. In this part of our *Annual Report*, we summarize our significant findings and recommendations from the *Seniors Report*. We include this section to comply with the requirement of the *Auditor General Act* to report in our *Annual Report* on the work of the Office. By including our recommendations, we enable the Government to respond formally and indicate the date by which implementation will be complete.

We also highlight actions the Departments of Health and Wellness and Seniors and Community Supports (the Departments) have taken since the release of the report to implement the recommendations.

Systems for delivery of care and programs require significant improvement

We examined the systems used to deliver services in long-term care facilities, the Seniors Lodge Program and the Alberta Seniors Benefit (ASB) Program. We concluded that the systems require significant improvement. Our key findings were that:

- standards for the provision of nursing and personal care and housing services in long-term care facilities and standards for the Seniors Lodge Program are not current,
- standards are needed for services delivered in assisted living and other supportive living facilities,
- systems to monitor compliance with standards for both long-term care facilities and lodges are not adequate, and
- the Departments of Health and Wellness and Seniors and Community Supports require further information to assess the effectiveness of the services and programs.

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[1] http://www.oag.ab.ca

Facilities, on average, did not meet 31% of Basic Service Standards for care

We visited 25 out of 179 long-term care facilities in Alberta, a sufficient number to assess, against provincial standards, the quality of care and services provided across the province. Facilities, on average, did not meet 31% of the *Basic Service Standards for Continuing Care Centres*[2] (Basic Service Standards) relating to care. The following table shows the average percentage of standards met.

Standard	Percentage of Standard Met
Basic Service Standards—care	68.7%
Basic Service Standards—housing	88.6%
Basic Service Standards—administration	49.3%

Departments' response to the *Seniors Report*

Departments agreed to our recommendations

The Departments responded to all of our recommendations; these responses are included in our *Seniors Report* beginning on page 7. The Departments agreed to each recommendation except for #8 in the *Seniors Report*, which the Department of Seniors and Community Supports agreed to in principle.

MLA Task Force gathering feedback on Standards

Since the release of our report, the Departments jointly initiated the *Government MLA Task Force on Continuing Care Health Service and Accommodation Standards*. The task force is to provide direction to the Departments on improving or introducing new standards, monitoring, and compliance mechanisms, including a mechanism to regularly update standards. The task force has held several meetings with Albertans to discuss the draft standards for care and accommodation services in supportive living and long-term care facilities. The task force issued its report in September 2005, which included recommendations for the government to consider in improving services in long-term care facilities.

Health and Wellness actions since report

The Department of Health and Wellness has stated that it has:

- Directed the Regional Health Authorities to increase the average paid care hours per resident day in long-term care facilities from 3.1 to 3.4 hours this fiscal year.
- Worked with the Regional Health Authorities to standardize the key elements of contracts with long-term care facility operators.

Seniors and Community Supports actions since report

In addition, the Department of Seniors and Community Supports has also stated that it has:

- visited 10 seniors housing projects to ask for feedback on the accommodation standards for supportive living.

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[2] Department of Health and Wellness, April 1995

- drafted reporting requirements to obtain information on accommodation-related expenditures from long-term care facility operators.
- initiated a project with representatives of supportive living and long-term care operators, Regional Health Authorities and the Department of Health and Wellness to develop a costing model for accommodation services.
- hired a contractor to develop strategies for implementing a data model to help determine the appropriate levels of thresholds and benefits for the Alberta Seniors Benefit Program.

Scope: what we did in our audit

Examined Departments' systems to manage seniors services and programs

Our overall objective was to determine if the Departments of Health and Wellness and Seniors and Community Supports had appropriate systems in place to manage seniors care and programs. Our audit was extensive and included examining the systems used by the Departments, Authorities, management bodies (also referred to as lodge operators), and long-term care facility operators to manage these services and programs.

Examination included 9 Authorities, 25 long-term care facilities and 20 lodge operators

We examined the systems of the 9 Regional Health Authorities (Authorities) in the Province, 25 long-term care facilities and 20 lodge operators. Authorities are responsible for the delivery of long-term care services in their region; therefore, we visited all Authorities and at least one long-term care facility in each Authority. Our sample of long-term care facilities and lodge operators is representative of these organizations across the province.

Our visits to 25 long-term care facilities included 12 public, 8 private and 5 voluntary facilities located in rural and urban communities across Alberta. Our objective was to assess, against provincial standards, the quality of care and services provided across the province. The facilities were located in a range of small to large communities, and varied in size from 10 to 440 beds.

We assessed the systems at each facility with a two-person audit team consisting of an auditor and a registered nurse. Each audit team had access to an advisory group consisting of a physician, a dietician, a pharmacist and an infection control specialist. The health professionals were responsible for assessing compliance with the Basic Service Standards. We chose the health professional team members for their combination of academic qualifications and experience in the long-term care field.

Our audit findings and recommendations

1. Long-term care facilities

Background

Long-term care facilities are owned and operated either by:

- Authorities (public facilities),
- corporations or individuals under contract to Authorities (private facilities), or
- voluntary, cultural or religious organizations under contract to Authorities (voluntary facilities).

Responsibility for services in long-term care facilities—The Minister of Health and Wellness:

Minister and Department of Health and Wellness

- sets the overall direction, priorities and expectations, including standards,
- allocates resources,
- ensures the delivery of quality health services, which includes access to services and ensuring there are appropriate processes in place to resolve the health concerns of individuals, and
- measures and reports on the performance of the health system to the legislative assembly and the public.

The role of the Department of Health and Wellness is to assist the Minister to fulfill his or her duties.

Minister of Seniors and Community Supports

In June 2003, the Cabinet decided that the Minister of Seniors and Community Supports should be responsible for the housing services delivered in long-term care facilities. Previously, housing services were included with other services provided in long-term care facilities under the responsibility of the Department of Health and Wellness. Continuing care services provided in long-term care facilities are to remain the responsibility of the Department of Health and Wellness.

Effective April 1, 2005, the Minister of Seniors and Community Supports is responsible for making regulations for determining accommodation rates and managing resident trust accounts in long-term care facilities.

Care and services provided at no cost to long-term care residents

Services and costs—Nursing care services, personal care services, medical or surgical supplies and medications are provided at no cost to residents of long-term care facilities. The cost of these services and supplies are paid by the Authorities. However, residents must pay user fees for personal expenses such as laundry, clothing, and hair care, as well as a monthly charge for their accommodation. The Department of Health and Wellness sets the maximum daily accommodation rate that long-term care facilities can charge residents.

Developing and maintaining Basic Service Standards—The Minister of Health and Wellness is responsible for setting standards for long-term care facilities. The Basic Service Standards cover care, housing and administration services. A more complete description of the Basic Service Standards is included in Appendix D of the *Seniors Report*.

Monitoring compliance with the Basic Service Standards in facilities—The Department of Health and Wellness and Authorities rely, in varying degrees, on the following three organizations to monitor facilities' compliance with the Basic Service Standards; however, none of these organizations are specifically required to monitor compliance with the Basic Service Standards:

- Canadian Council on Health Services Accreditation
- Health Facilities Review Committee
- Protection for Persons in Care

Department provides funding to Authorities

Funding for Regional Health Authorities and facilities—The Department of Health and Wellness provides operational funding to all Authorities to provide acute and ambulatory care, continuing care, home care, health protection, disease prevention and health promotion within their regions. Authorities can determine how they allocate the operational funding provided to them by the Department to deliver services within their region.

Determining future needs for continuing care services—To modify and improve continuing care services and respond to the aging population with the goal of supporting Albertans to "age in place" in the community—in their home or in supportive housing, the Department of Health and Wellness required Authorities to prepare Ten-Year Continuing Care Strategic Service Plans. These Plans would cover a broad range of continuing care services including a home living stream, supportive living stream, and facility based stream.

Developing and maintaining standards

Recommendation No. 5

We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, update the Basic Service Standards for services in long-term care facilities and implement a system to regularly review and update the Basic Service Standards to ensure they remain current. (Report of the Auditor General on Seniors Care and Programs, No. 1—page 29)

Our audit findings

Basic Service Standards not current

During our visits to facilities we saw situations that indicate that the Basic Service Standards are not up to date. For example, we saw considerable variations in practice among facilities in interpreting the Basic Standard for user fees. We also found variations in practice in conducting annual physical examinations, managing residents' trust accounts and residents' personal inventories. These variations in practice suggest that either the Basic Standard is out of date or not sufficiently clear to ensure consistent application.

No process to review the Basic Service Standards

The Department of Health and Wellness does not have a process to periodically review the Basic Service Standards to ensure that they reflect current policy and care needs of residents. The Department does not seek input from the Authorities, facility operators or various health care professional groups to identify changes required to the Basic Service Standards.

Implications and risks if recommendation not implemented

Residents may not receive appropriate care

Without current Basic Service Standards, residents of long-term care facilities may not receive appropriate nursing, personal care or housing services. Basic Service Standards alone will not guarantee appropriate care and services for residents. However, they guide caregivers about the basic level of care and services to provide to residents.

Compliance with Basic Service Standards

Recommendation No. 6

We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the Basic Service Standards. (Report of the Auditor General on Seniors Care and Programs, No. 2—page 31)

System to monitor compliance with Basic Service Standards needs to be improved

Our audit findings

The Department of Health and Wellness does not have an adequate system to monitor long-term care facilities' compliance with Basic Service Standards. The Department relies on the Authorities, the accreditation process, the Health Facilities Review Committee (HFRC) and the Protection for Persons in Care Office (PPIC) to monitor whether the facilities comply with Basic Service Standards.

Only one Authority recently started inspecting its facilities for compliance with all the Basic Service Standards. Further, the accreditation process, HFRC and PPIC do not inspect facilities for compliance with the Basic Service Standards and do not have enforcement mechanisms to ensure that facilities rectify non-compliance. During our facility visits, we found that, on average, 31% of the Basic Service Standards relating to care were not met.

Implications and risks if recommendation not implemented

If facilities are not monitored for compliance with Basic Service Standards, the Department and Authorities will not know if facilities are complying with Basic Service Standards. As a result, residents may not receive appropriate care or services.

Effectiveness of services in long-term care facilities

Recommendation No. 7

We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities. (Report of the Auditor General on Seniors Care and Programs, No. 3—page 34)

Recommendation No. 8

We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from the Regional Health Authorities and long-term care facilities to make accommodation rate and funding decisions. (Report of the Auditor General on Seniors Care and Programs, No. 4—page 35)

Our audit findings

Department does not have information to assess quality and cost-effectiveness

The Department of Health and Wellness currently lacks information to assess the quality and cost-effectiveness of services in long-term care facilities. The Department obtains some information from Authorities about wait lists and certain financial information. However, this information is not sufficient to allow the Department to assess the effectiveness of services provided in long-term care facilities. Nor is this information sufficient for making funding decisions, setting accommodation rates, or assessing policy changes.

MDS to be implemented in 2007–2008

The Department has taken steps to correct some of these deficiencies but will not have information to measure quality of resident care in all regions of the province until the 2007–2008 fiscal year, when the Minimum Data Set (MDS) system is implemented. MDS is an information system that will provide quality of care indicators for each long-term care facility resident. The 24 quality indicators in MDS measure the quality of life and health of residents.

Information to make funding decisions

The Department collects information about the cost of long-term services primarily to make funding decisions. The Authorities also collect cost information to monitor facility expenditures against budgets, identify significant changes in facility revenues and expenses, and make funding decisions.

Department does not have information to assess whether accommodation rates sufficient

The Department of Health and Wellness does not require Authorities or facilities to report long-term care facility costs in sufficient detail to enable it to assess whether accommodation rates are sufficient to cover accommodation costs. The Department also does not have a policy on the portion of accommodation costs that are the responsibility of the resident, what accommodation costs should consist of, or how to calculate the accommodation rate.

Funding for facilities varies by up to $10,000 per bed per year among Authorities

All Authorities fund their contracted long-term care facilities based on the funding methodology the Department used before regionalization to fund facilities. The Authorities customized it. Facility funding levels differ among the Authorities; funding varies by up to $10,000 per year per bed. While we expected some differences in funding levels between the regions due to things like differing resident functional care needs, staff mixes, funded rates per hour for nursing time, and number of funded paid hours per resident day, we were unable to obtain information to explain the large range in funding. Also, since information about the quality of services achieved by each region was not available, we could not assess if the Authorities that spend more achieve better results than the Authorities that spend less.

Implications and risks if recommendations not implemented

Funding may not be allocated effectively, and residents may not be paying appropriate accommodation costs

The Department and Authorities need information about the quality of services provided in long-term facilities to make informed decisions about the effectiveness of various initiatives to improve services. Without this information, the Department may not effectively allocate funds to Authorities and facilities. The Department also needs better information about facility costs to ensure accommodation rates cover accommodation costs. Residents may not be charged an appropriate amount for accommodation costs.

Information to monitor compliance with legislation

Recommendation

We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, identify the information required from long-term care facilities to enable the Departments and Authorities to monitor their compliance with legislation. (Report of the Auditor General on Seniors Care and Programs—page 37)

Our audit findings

Department does not have sufficient information to monitor compliance with legislation

The Department has not identified the information that it requires from the facilities to enable it to monitor their compliance with legislation. The agreements between Authorities and facilities vary significantly among the Authorities and often do not require sufficient management information from the facility operators.

Implications and risks if recommendation not implemented

Residents may not get service they require

The Department and Authorities need assurance that facilities meet legislated and contractual requirements, which are ultimately intended to ensure residents' needs are met. Without this assurance, the Department and Authorities will not know if legislated and contractual requirements are being met, and residents may not get the service required.

Determining future needs for services in long-term care facilities

Recommendation No. 9

We recommend that the Department of Health and Wellness, working with Regional Health Authorities and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan. (Report of the Auditor General on Seniors Care and Programs, No. 5—page 39)

Recommendation

We recommend that the Department of Health and Wellness require Regional Health Authorities to periodically update and report on progress implementing their Ten–Year Continuing Care Strategic Service Plans. (Report of the Auditor General on Seniors Care and Programs—page 39)

Our audit findings

Several issues affecting future needs for long-term care services

There are a number of issues affecting the delivery of services in long-term care and supportive living settings that the Department and Authorities need to respond to. These include:

- An aging population will increase the demand for services and facilities.
- Residents of long-term care facilities have increasingly complex care needs.
- The long-term care workforce is aging and it is currently hard to recruit medical professionals to work in long-term care facilities.

The Department of Health and Wellness and Authorities have projected future needs for services and capital requirements for long-term care facilities. However, the Department does not have a long-term plan to meet future needs for services in long-term care facilities and supportive living settings.

Department does not receive sufficient information to assess progress on ten-year plans

The Department also does not receive sufficient information from Authorities to fully assess Authorities' progress in meeting the goals set out in their Ten-Year Continuing Care Strategic Service Plans. All Authorities now include some of the goals included in their ten-year plans in their three-year health plans and annual business plans. They have also reported to the Department in their *Annual Report* on their progress against those goals. However, Authorities do not report to the Department on their progress in meeting all the goals in their ten-year plans.

Implications and risks if recommendation not implemented

Long-term needs for services may not be met

In the absence of a provincial long-term plan for services provided in long-term care facilities, Authorities may not have adequate direction. Planning may be fragmented and strategies, goal and results will not be assessed comprehensively on a province-wide basis. As a result, long-term needs for services in long-term care facilities may not be consistently met.

2. Services in supportive living settings

Background

Supportive living facilities may be operated by publicly funded non-profit organizations, private non-profit organizations or for-profit companies. Seniors can access several types of supportive living settings to meet their housing and care needs:

Assisted living—there are several assisted living models. Typically, this supportive living setting provides residents with nursing care services in addition to housing and personal care services. These facilities often serve residents who have more complex needs than would typically be provided for in other supportive living settings. Designated assisted living facilities are those facilities where Authorities and an owner have a contractual relationship for coordinating and providing continuing care services in the facility.

Lodges—these are designed to provide room and board for seniors who are functionally independent. Core services provided in lodges include basic room furnishings, meals, housekeeping services, linen services, security, 24 hour non-medical staffing and life enrichment services. Some lodges may provide enhanced services such as personal care, medical assistance and contracted home care services based on the needs of the residents; these facilities are known as Enhanced Lodges. Enhanced Lodges are similar to assisted living facilities except that they serve residents who have less complex needs than those in assisted living. Any medical care provided to a resident of a lodge is provided by an Authority through home care services.

Other supportive living settings—these facilities, such as seniors complexes and group homes, provide seniors with private living accommodation, a safe environment, 24-hour monitoring and emergency response, options for meals, housekeeping, transportation, social and recreational activities and some basic living and personal care services. These facilities are typically operated by non-profit or profit organizations without any government involvement.

As at March 31, 2004, the most current information the Department of Health and Wellness had on supportive living settings where the Authorities provide continuing care services was:
- Designated Assisted Living Facilities–1,033 beds
- Other assisted living facilities–552 beds
- Enhanced Lodges–307 beds

There are also 143 lodges, with approximately 8,500 beds, in the province. The Department of Seniors and Community Supports estimates that at April 2005 there are approximately 10,000 other supportive living beds; however, because some of these facilities do not have contracts with the Departments or the Authorities to provide services in these settings, the number may not be complete.

Standards—There are no standards for the care and housing services provided in assisted living and other supportive living facilities.

Seniors Lodge Standards developed in 1996

The Standards for the Operation of Seniors Lodges (Seniors Lodge Standards) were developed in 1996 by the Lodge Standards Working Group, a group composed of members from the Alberta Senior Citizens' Housing Association (ASCHA) and the Department of Community Development (now Seniors and Community Supports). The Minister and the ASCHA board representative approved the Seniors Lodge Standards. Lodges that chose to undergo a lodge review and demonstrated compliance with the Seniors Lodge Standards received certification. The Standards cover services such as housing, meals, laundry, and housekeeping.

2.1 Assisted living and other supportive living facilities

Standards for services in assisted living and other supportive living settings

Recommendation No. 10

We recommend that the Department of Health and Wellness and the Department of Seniors and Community Supports establish standards for care and housing services provided in assisted living and other supportive living settings. (Report of the Auditor General on Seniors Care and Programs, No. 6—page 45)

Our audit findings

No minimum standards for supportive living

There are no standards for housing, nursing and personal care services provided in assisted living and other supportive living settings. There is also no commonly accepted definition of what services should be provided in supportive living settings and who is responsible for the cost and delivery of these services. The costs paid by residents of the facilities also vary and while this may be acceptable, residents do not have sufficient information to compare each facility because the services vary significantly.

Implications and risks if recommendation not implemented

Residents may not receive appropriate care or services

Without standards specific to the services provided in assisted living and supportive living settings, residents may not be receiving an appropriate level of continuing care, housing or personal care services.

2.2 Seniors Lodge Program

Developing and monitoring standards for the Seniors Lodge Program

Recommendation No. 11

We recommend that the Department of Seniors and Community Supports:

1. **update the Seniors Lodge Standards and implement a process to maintain them.**
2. **improve its systems to monitor management bodies' compliance with the Seniors Lodge Standards.**

(Report of the Auditor General on Seniors Care and Programs, No. 7—page 48)

Our audit findings

Seniors Lodge Standards out of date

Although there was a process to review and update the Seniors Lodge Standards annually, this process has not been followed. The current Seniors Lodge Standards are out of date and ASCHA and the Department of Seniors and Community Supports is working to update them.

No system to monitor compliance with Seniors Lodge Standards

The Department also does not currently have a system to monitor compliance with the Seniors Lodge Standards. No lodge reviews have been performed since 2002. The reviews have been suspended while the standards committee develops new standards. The Department expects lodge reviews to resume in the fall of 2005.

Implications and risks if recommendation not implemented

Without current and relevant standards for care and services in lodges, residents may not be receiving appropriate services.

Effectiveness of Seniors Lodge Program

Recommendation No. 12

We recommend that the Department of Seniors and Community Supports:

1. **improve the measures it uses to assess the effectiveness of the Seniors Lodge Program.**
2. **obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges.**

(Report of the Auditor General on Seniors Care and Programs, No. 8—page 49)

Our audit findings

The Department of Seniors and Community Supports measures and reports on the percentage of lodge residents who are satisfied with the quality of their accommodation in its annual report. The Department also obtains waiting list information from management bodies semi-annually and obtains budgets and financial statements annually.

Department does not assess whether the $265 monthly disposable income rate set in 1994 is still appropriate

However, this performance measure and information are not sufficient to determine whether the Department is adequately meeting its goal for the Seniors Lodge Program. The Department does not periodically obtain and review information to assess whether the monthly disposable income rate for lodge residents is appropriate. The monthly disposable income for lodge residents was set in 1994 at $265 per resident and has never been adjusted to reflect lodge residents' increasing personal income requirements due to increased care needs and inflation.

Implications and risks if recommendation not implemented

Without better information on the effectiveness of the Seniors Lodge Program and the appropriateness of the minimum disposal income rate, the Department cannot determine whether changes are required to achieve the program goals.

Determining future needs

Recommendation

We recommend that the Department of Seniors and Community Supports improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program. (Report of the Auditor General on Seniors Care and Programs—page 50)

Our audit findings

Department projects future lodge requirements

The Department of Seniors and Community Supports includes future lodge requirements in its request to the government's capital planning initiative committee for grant funding for construction and upgrading of lodges. The Department's request includes estimates of the construction costs of the new units based on historical costs and includes a 3% inflationary increase in the cost of construction per year.

Department's cost estimate may not be adequate

The Department's projections of future needs do not reflect new requirements such as the capacity to provide the increased health care and personal care services that lodge residents may require in the future. The request also did not include the estimated increase in annual Lodge Assistance program grants to support these new facilities.

Implications and risks if recommendation not implemented
Without adequate information on the needs of seniors in lodges, the Department's plans for the Seniors Lodge Program may not adequately provide for the cost of meeting the needs.

3. Alberta Seniors Benefit Program

Background

Alberta Seniors Benefit Program provides cash benefits to seniors

The Minister of Seniors and Community Supports is responsible for administering the Alberta Seniors Benefit Program. The ASB is an income-based program that provides cash benefits to eligible seniors. ASB provides support to seniors in addition to federal benefits received under Old Age Security, Guaranteed Income Supplement, Federal allowances and the Goods and Services Tax Credit. Seniors are eligible to receive maximum ASB benefits if they are over 65 and receive the full amount of Old Age Security benefit. Seniors not receiving old age security benefits are eligible to receive ASB at a reduced rate.

Benefit amounts depend on income and are not taxable

The amount of ASB benefit received by the senior depends on income, Old Age Security eligibility, marital and cohabitation status and residence type. The lower a senior's income, the higher their benefits will be, up to the maximum. ASB benefits are not taxable. Although seniors must report the amount received as income, they can deduct it when calculating federal and provincial taxable income.

Effectiveness of the Alberta Seniors Benefit Program

Recommendation

We recommend that the Department of Seniors and Community Supports improve the measures it uses to assess whether it is meeting the objective of the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs—page 55)

Our audit findings

The Department's goal for the ASB is: "*Seniors in need have access to financial supports that enable them to live in a secure and dignified way.*" The Department has two performance measures to evaluate whether it is achieving its goal for the ASB:

- percentage of eligible seniors provided with the opportunity to apply for the Alberta Seniors Benefit
- the satisfaction of seniors with information provided

Department does not measure whether ASB objective achieved

These measures give the Department information on access to the program and user satisfaction with program information. However, the Department does not directly measure whether the objective of ASB is achieved. The Department has not defined "need" and does not measure whether the ASB is sufficient to meet the needs of seniors.

Implications and risks if recommendation not implemented

Without sufficient measures, the Department cannot assess whether it is meeting the program objective.

Information to determine program benefits

Recommendation No. 13

We recommend that the Department of Seniors and Community Supports obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs, No. 9—page 56)

Our audit findings

Department does not assess adequacy of income thresholds and cash benefits

The Department of Seniors and Community Supports obtains information on current costs of the ASB and the effect of changes to related federal benefit programs on the ASB. However, the Department does not obtain sufficient information to assess the adequacy of the ASB income thresholds and benefit amounts. The Department also does not have information to determine whether the needs of seniors in various supportive living settings, such as assisted living, are being adequately met by the current benefits.

Implications and risks if recommendation not implemented

Without information on the appropriateness of the ASB income threshold and benefit amounts, the Department's plan for future program funding requirements may not be adequate.

Sustainable Resource and Environmental Management (SREM)

The recommendation that follows is addressed to three Deputy Ministers. For this reason, our observations have been placed in this standalone section.

Previous recommendation and government action

IRM now called SREM

What is now referred to within government as Sustainable Resource and Environmental Management (SREM) used to be called integrated resource management. Up until now, we have directed our recommendations on integrated resource management to the Ministry of Environment, whose Deputy Minister was one of the co-chairs of the Sustainable Development Coordinating Council (SDCC). This Council is responsible for implementing *Alberta's Commitment to Sustainable Resource and Environmental Management*, which was published in 1999.

The *Commitment* sets out the principles for "the wise management of Alberta's natural resources and environment…now and in the future."

In our *2002–2003 Annual Report* (page 105), we reported that progress to complete the undertakings in the Commitment was slow. We recommended that the Deputy Minister of Environment, working with SDCC, should:

- plan and report against the *Commitment* annually to the Standing Policy Committee; and
- complete the legislative and regulatory regime review required by the *Commitment*.

We were concerned that without annual planning and reporting against the *Commitment*, accountability was lacking, and awareness of and interest in integrated resource management might diminish.

Three ministries jointly responsible

Instead of reporting against the *Commitment* in the spring of 2005 as was originally planned, in August 2004 the Departments of Energy, Environment and Sustainable Resource Development presented a report to the Standing Policy Committee recommending that the three Ministries be jointly responsible for developing and integrating cross-ministry policies for sustainable resource and environmental management.

The SDCC had reviewed the *Commitment* and concluded:

> "The broad direction of the *Commitment* is still valid, but that the specific agenda may have been superseded by other initiatives, such as those highlighted in the Alberta government 20-year strategic plan. As well, approaches to decision-making and regulatory reform have changed substantially since the time of the *Commitment* document. Cross-Ministry involvement in policy is now the norm, but there has been less success in regional-scale cross ministry initiatives. As well, stakeholder involvement has been inconsistent."

The three Deputy Ministers (Energy, Environment and Sustainable Resource Development) believe there has been significant progress in advancing the *Commitment* as evidenced by the:

- report to the Standing Policy Committee identifying the high level priorities for implementing the principles of the *Commitment*
- recognition of their shared complementary responsibility for SREM
- creation of the SREM Project Office

As impediments to progress have now been resolved, and as our previous recommendation cannot be implemented as presented, we are making a new recommendation on the actions the three Ministries should take to maintain the momentum they have created.

Implementation plan needed

Recommendation No. 14

We recommend that the Deputy Ministers of Energy, Environment, and Sustainable Resource Development, with the help of the Sustainable Resource and Environmental Management (SREM) Project Office:

- **publish a SREM implementation plan with projects, deliverables and deadlines, together with responsibilities and costs, and**
- **report annually to the Standing Policy Committee on their progress in implementing the SREM strategy envisaged in *Alberta's Commitment to Sustainable Resource and Environmental Management*.**

Background

Resource decisions affect many stakeholders

Provincial resources include air, water, timber, oil and gas, coal and other minerals, and public lands. The government's approach is to manage these resources by integrating decisions, policies, programs and activities so that the long-term benefits to society are optimized and conflicts between competing stakeholders are minimized. Resource decisions can significantly affect businesses such as agriculture, oil and gas, and forest companies, along with fish and wildlife, the public and other levels of government.

The government's objective for Sustainable Resource and Environmental Management (SREM) is:

- outcome-based management systems
- government-wide integrated management policies
- streamlined regulatory processes using the principle of one application, one approval, one regulator, one appeal and clear accountability

SREM requires implementation of shared vision across ministries

To achieve this objective will require the three Ministries to develop:

- government-wide vision with specified outcomes, and shared performance measures and information systems
- roles and responsibilities for multiple ministries
- approaches that integrate resource demands in a particular location (i.e. place-based) taking into account cumulative effects on the environment
- systems to monitor, report and evaluate the quality of the environment
- tools and incentives to encourage, support and reward effective environmental performance

Criteria: the standards we used for our audit

We use the province's accountability model to assess the success of the three Ministries in implementing integrated resource management, now referred to as Sustainable Resource and Environmental Management (SREM). Those who use public resources should:

1. Set measurable goals, and responsibilities
2. Plan what needs to be done to achieve goals
3. Do the work and monitor progress
4. Report on results
5. Evaluate results and provide feedback

We intend to report in our next *Annual Report* our assessment of whether the three Ministries have made satisfactory progress in meeting these criteria. For us to consider our recommendation implemented, there must be evidence that SREM can and will be brought into operation in accordance with the expectations of the *Commitment*.

Our audit findings

Evidence of progress

As evidenced by its 2005–2008 business plan, the SREM strategy is the Ministry of Environment's strategy for managing the environment. Both the Ministries of Energy and Sustainable Resource Development cite streamlined regulatory processes for sustainable resource development in their 2005–2008 business plans.

Implementation plan not yet developed

The three Ministries have not yet published a SREM implementation plan with projects, deliverables and deadlines, together with responsibilities and costs. We have been informed that this essential requirement will be a priority of the

SREM Project Office, which is scheduled to begin operating by September 2005.

Implications and risks if recommendation not implemented

In the absence of a timetable to make integrated resource management a functioning reality, there is no basis for assessing the success or otherwise of Alberta's commitment to sustainable resource development.

Aboriginal Affairs and Northern Development

Summary: what we found in our audits

Performance reporting
Our auditor's report on the Ministry financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Two core businesses

The Ministry's 2004–2007 business plan describes two core businesses:
- encourage initiatives to increase Aboriginal participation in the social and economic life of Alberta and to facilitate the resolution of significant Aboriginal issues
- facilitate the development of Northern Alberta

Ministry spent $36 million

In 2004–2005, the Ministry spent $36 million on the following programs:

	(millions of dollars)
Aboriginal relations	18
Métis Settlements governance	6
Statutory expenses for Métis Settlements	10
Northern development	2

No external revenue

The Ministry receives no revenue from sources external to government.

For more information about the Ministry, visit its website at www.aand.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

Advanced Education

Summary: what we found in our audits

Systems

The Department should improve student loan management processes by:

- consistently using certain data in assessing which programs continue to be designated as eligible for student funding.
- testing and evaluating the risk of issuing excessive loans and LRB grants because of invalid student eligibility information—see page 81.

The Department should work with post-secondary institutions to find opportunities to purchase goods and services at better prices—see page 84.

Performance reporting

Our auditor's report on the financial statements of the Ministry is unqualified. In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity. We found no exceptions when we applied specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—The University of Calgary
  The University of Calgary should improve research management processes—see page 89.

- Systems—Athabasca University
  Athabasca University should improve its information technology planning and governance—see page 97.

- Systems—Mount Royal College
  Mount Royal College's Board of Governors should improve its governance systems—see page 100.

- Performance reporting—Lakeland College
  - Lakeland College should improve the monitoring of actual results in comparison to budget—see page 102.
  - fire etc. should ensure that students are accurately billed when they register for a program and overdue accounts are followed up promptly—see page 103.

- Performance reporting—Grant MacEwan College
  Grant MacEwan should resolve deficiencies and strengthen the overall control framework in the Information Technology environment—see page 103.

- Systems—The Northern Alberta Institute of Technology (NAIT)
  We developed a due diligence framework and made changes to the due diligence checklist that the Northern Alberta Institute of Technology used during the Fairview College merger. We have posted the framework and checklist on our web-site (www.oag.ab.ca) under the Literature link, so that other organizations can use them in the case of future mergers—see page 105.

- Performance reporting—post-secondary institutions
  Our auditor's reports of the financial statements of post-secondary institutions listed in 3.2 of Scope are unqualified.

Overview of the Ministry

The Ministry was established as a result of the restructuring of government ministries announced on November 24, 2004. The Ministry's 2004–2007 business plan describes three core businesses:

- Support the Learning System
- Support the Learner
- Support the Ministry to ensure excellence of the Learning System

In 2004–2005, the Ministry spent approximately $1.45 billion. The largest expenses are:

	(millions of dollars)
Assistance to post-secondary institutions	1,231
Support to post-secondary learners	105
Provision for future cost of student loans issued	49

The Ministry's revenue was approximately $271 million in 2004–2005. The primary source of revenue is the Government of Canada ($217 million)

For more information on the Ministry, visit its website at http://www.advancededucation.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

We completed the following systems audit work within the Ministry:

- We examined Department's systems for managing student loans.
- We examined the Department's guidance to public post secondary institutions about joint procurement.
- We followed up on our previous recommendations.

2. Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—post-secondary institutions

We completed the following systems audits:

- We completed the second and final phase of our research management audit at the University of Calgary, concentrating on research roles and responsibilities, research policies, project proposals, project management, and accounting for research revenues and expenditures.
- We examined Athabasca University's information technology strategic planning for administrative systems.
- We audited the processes followed by the Mount Royal College Board of Governors Governance and Human Resources Committee in deciding to enter into agreements with three vice-presidents.
- At the request of the Northern Alberta Institute of Technology's (the Institute) Finance and Audit Committee, we reviewed the Institute's due diligence processes during the Fairview College merger; and developed a due diligence framework document that other institutions could use in the case of future mergers.
- We followed up on our previous recommendations.

3.2 Performance reporting—post-secondary institutions

We audited the financial statements for the year ended March 31, 2005 of the following entities:

- Athabasca University
- University of Alberta and its related entity, PENCE Inc.
- University of Calgary and its subsidiaries/related entities, The Arctic Institute of North America, The University of Calgary Foundation (1999), University Technologies International Inc. and the Olympic Oval/Anneau Olympique

- University of Lethbridge

We audited the financial statements for the year ended June 30, 2004 of the following entities:

- Alberta College of Art and Design
- Bow Valley College
- Fairview College and its related entity Fairview College Foundation
- Grant MacEwan College and its related entity Grant MacEwan College Foundation
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College and its related entity fire etc. (Emergency Training Centre)
- Lethbridge Community College and its related entity Lethbridge Community College Fund
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society, Mount Royal College Foundation, and the Students' Association of Mount Royal College
- Northern Alberta Institute of Technology and its related entity the Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- NorQuest College and its related entity NorQuest College Foundation
- Olds College and its related entities Olds College Foundation and the Olds College Centre for Innovation Inc.
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Our audit findings and recommendations

1. Systems

1.1 Student loans

Background

Students must meet eligibility criteria

The Department of Advanced Education provides student loans and loan relief benefit grants (LRB grants) to post secondary students each year. To be eligible for a loan or LRB grant, students must meet certain conditions and attend a program that the Department has designated as eligible. For the Department to designate a program as eligible, the program must have:

- a student loan, default rate less than 35%, and
- graduation and employment placement rates of 70% or greater.

The Department requires students to repay LRB grants when they leave school before completing their first year of studies.

Students no longer in school must repay their loans within a certain time set by the Department.

Students default on loans when not meeting repayment terms

Students will be in default on their loan if they don't make a payment for 150 days or owe interest for 180 days, or more. In 2005, the Department had outstanding loans of $225 million and an allowance for defaulted loans of $25.5 million.

1.1.1 Managing student loans

Criteria: the standards we used for our audit

The Department's system for managing the student loan and LRB grant program should:

- set out clear roles and responsibilities for parties and monitor compliance by the parties
- assess and report internally to government decision makers the sufficiency of the funds provided to meet student financial needs

Our audit findings

These criteria were met.

1.1.2 Designating programs as eligible

Recommendation No. 15

We recommend that the Department of Advanced Education:

- **consistently use graduation and employment data, along with information on loan relief benefit grant (LRB grant) repayments, in assessing which programs continue to be eligible for student funding, and**
- **test the reliability of student graduation and employment data from private institutions with students who have student loans.**

Criteria: the standards we used for our audit

The Department's systems should:

- monitor whether programs should continue to be designated as eligible for students who seek student loans and LRB grants.
- reduce the risk of defaults on loans and LRB grants that were supposed to be repaid but were not.

Our audit findings

The Department has individual reports showing graduation and employment data, default rates, and the number of students with student loans in a program, but it does not have a combined report. Such information would help the Department take prompt action to reduce loss from defaults.

Complete data not always used to make decisions about which programs are designated for funding

When deciding which programs will continue to be designated, the Department evaluates the number of years institutions have had unacceptable program default rates. The Department considers only the loan default rate; it does not always assess the losses from students in the program who are required to repay LRB grants, but don't.

LRB grant repayment amounts and rates are significant, particularly for private institution programs. During the 2003–2004 fiscal year, the Department calculated that students needed to repay $4.2 million of LRB grants. Of this total, $2.5 million was for students of private institutions. Private institution students represent only 10% of the total post secondary students, but approximately 60% of students required to repay LRB grants in that year.

Some data used for program designation decisions may not be accurate

The Department has processes in place to test the reliability of graduation and employment data from public post secondary institutions. However, it has not regularly tested data from private vocational institutions for the last three years.

Implications and risks if recommendation not implemented

Improving the program monitoring processes for rates of graduation, employment, and loan and LRB grant repayment will reduce the risk of loss for the Department.

1.1.3 Departmental compliance tests

Recommendation No. 16

We recommend that the Department of Advanced Education:

- **test and evaluate the risk of issuing excessive loans and LRB grants because of invalid student eligibility information, and**
- **automate the process it uses to determine whether income variances are due to Department grants.**

Criteria: the standards we used for our audit

The Department's controls should ensure that only eligible students receive loans and LRB grants.

Our audit findings

Not all loan and LRB grant eligibility information are tested

Testing student eligibility information—The Department issues loans and LRB grants based on the information provided by students. The Department tests only some of the student eligibility information.

The Department calculates the amount of overpayments for the student information it tests. It does not calculate the total amount of overpayment for the population.

Matching Department loan data to CRA data—After paying the loans and LRB grants, the Department obtains information from the Canada Revenue Agency (CRA). The Department compares this information to the students' information.

Further automated sample selection could save time

The most recent CRA database match detected approximately 6,500 students who reported a higher income to CRA than they reported in their loan application. While the process to determine income variances is automated, the process to determine whether the variances are due to Department grants is not automated. The Department uses this information to determine which student files to test.

Implication and risks if recommendation not implemented

Testing samples of all student eligibility information and evaluation of the results would allow the Department to:

- confirm the validity of the current process, and
- identify areas with overpayment risk, which need further compliance testing or additional application information.

1.2 Public post-secondary institution purchasing

Recommendation No. 17

We recommend that the Department of Advanced Education work with post-secondary institutions to find opportunities to purchase goods and services at better prices.

Background

There are 21 public post-secondary institutions (PSIs) in Alberta. They spend approximately $528 million per year to buy goods and services. Most of this amount is for contract services, but a significant portion is for goods that are common to several, and sometimes to all, institutions.

The institutions may participate in the standing offers negotiated for the Government by the Department of Restructuring and Government Efficiency. While the *Agreement on Internal Trade* prevents larger institutions from participating in Government standing offers unless they participated in the tendering process for the offer, the institutions could still use price information in the standing offers as a benchmark to evaluate their own purchases.

The Department provided $1.2 billion of funding to public PSIs in 2004–2005. The Department's role, as defined in its 2005–2008 business plan, includes the enhancement of the advanced education system. Improved use of resources would be an enhancement for the system.

Scope

We reviewed the procurement processes, and the contract prices and discounts, of two large institutions, three medium size institutions, and four small institutions. We focused on goods that we expected all PSIs to purchase, and searched for common suppliers among the institutions.

We looked for examples where institutions, particularly those in purchasing groups, negotiated greater discounts than other institutions. We also looked for opportunities for institutions to benchmark their costs for supplies and services amongst each other.

Criteria: the standards we used for our audit

PSIs should have processes to:

1. identify and realize savings through joint contracting/purchasing.
2. ensure supplies and services meet the needs of the entity within joint procurement arrangement
3. establish benchmarks and evaluate savings

The Department should have processes to facilitate the identification and sharing of best practices for procurement.

Our audit findings

Joint contracting and purchasing—We found opportunities for PSIs to realize modest savings through joint purchasing, as described below.

Office Supplies

PSIs may save by participating in government standing offers

- Of nine PSIs reviewed, seven together purchased $5 million of office supplies from the same supplier. The government also has a standing offer with this supplier. None of these PSIs made joint purchase agreements with other PSIs, but two small ones participated in the government standing offer. The government and these two achieved better discounts than most PSIs that we reviewed.

Joint purchasing saves money

- A medium sized PSI, working through a purchasing group, obtained greater discounts from the same supplier than those obtained by a large PSI purchasing on its own. We estimate that the large PSI could have saved $200,000 per year if it had been part of the government standing offer.
- Another medium size PSI purchased from the same supplier as the government at a higher price. We estimate this PSI would have saved $70,000 per year if it had been part of the government standing offer.
- One large PSI was able to obtain discounts comparable to those received by the government. We noted that discounts on some items exceeded the discounts available to the government, while discounts on other items were less.

Overall, PSIs that participated in purchasing groups achieved significant savings. In most cases, participating with the government would have produced savings on office supplies. Further savings may be available through cooperation between large PSIs and the government.

Textbooks

Purchasing through a book bureau may produce savings

- We found some opportunities for PSIs to save on the cost of textbooks through group purchasing. Publishers offer standard discounts for books sold to PSIs, regardless of size. But the Learning Resources on textbooks

Centre (LRC) of the Department of Education receives higher discounts as a book bureau than the publishers offer to school jurisdictions. There may be potential for PSIs to arrange higher discounts with the publishers for books through the LRC, or by forming their own book bureau. Further savings may be achieved through combining shipments from publishers to achieve greater economies of scale.

PSIs may receive greater discounts through an early order program

- There is potential to achieve greater discounts through an early order program. The LRC receives an additional 5% discount from three publishers on books ordered in the previous school year for delivery by September. These arrangements allow the publishers to better predict books they will need, so they can better manage their inventories. PSIs may be able to work out a similar arrangement with these publishers, particularly for undergraduate books that are purchased in large numbers and are the same each year. The nine PSIs spend approximately $20 million per year with the same three publishers.

Computer hardware

PSIs may save more through joint bulk purchases of computer hardware

- Two large PSIs purchased $8.4 million of computer equipment from the same supplier, but did not co-operate on these purchases. The government achieves savings through quarterly bulk purchases. Every three months the government accumulates a list of needed hardware and puts this out for tender with a commitment to purchase. PSIs may have different needs for warranties or technical support, but they may still benefit from joining the government in these quarterly purchases, or arrange another purchase program with other PSIs.

Other supplies

PSIs purchasing from the same supplier may save more by negotiating together

- Two large PSIs purchased $25.4 million of research and lab equipment and supplies from the same 12 suppliers, without co-operating on these purchases. While the government does not negotiate standing offers on these supplies and equipment, PSI's may save by combining purchasing power to negotiate greater discounts.

Some purchasing groups were unsuccessful in the past because some members would not commit to purchase at the tendering stage, to combine their volume to obtain greater discounts. Other purchasing groups were unsuccessful because members could not agree on common items to purchase. But if institutions purchase from the same supplier, they can negotiate common discounts and continue to purchase their preferred items.

Establishing benchmarks and evaluating savings

PSIs should benchmark their prices against each other and government standing offers to identify opportunities for greater savings

Some PSIs tried to benchmark their supply costs against those of other PSIs, but there are opportunities for more benchmarking. For example, PSIs could compare their prices and discounts to the government standing offers. All public PSIs had permission to access and participate in government standing offers, though only two of the nine PSIs we reviewed did so. We found that:

- Some PSIs had compared their prices to government standing offers in the past (3 or more years ago), but had not compared the prices since. These PSIs had since awarded or renewed standing offer contracts for office supplies without further comparison to government standing offers.
- Office supplies discounts under government standing offers have increased significantly over the past three years.
- Purchasing management at one small PSI knew that it had accessed government standing offers in the past, but no longer knew how to do so.
- A purchasing manager with 4 years of experience at another small PSI was unaware that the institution had access to government standing offers, or even that these offers existed.

Department processes to identify and share best procurement practices

The Department accumulates cost information for all PSIs. The Department's and our analysis of this information on a cost/size or cost/number of students shows a significant range in costs between PSIs. The difference in size and type of programs between institutions makes it difficult to use this information to establish benchmarks. The Department shares this information with all PSIs so they can see how they compare to others.

The Department should encourage PSIs to share procurement information among themselves, so they can identify best practices and opportunities for better prices.

Institutions sharing procurement information with each other and government

PSIs should ensure that their purchasing contracts allow sharing of information

Enquiries at the Office of the Information and Privacy Commissioner indicate that the *Freedom of Information and Protection of Privacy Act* allows PSIs to share purchasing information (other than personal information) with each other, and with the government. However, one PSI had clauses in a standing offer contract that prevents the sharing of information. If purchasing information cannot be shared, other PSIs may not benefit from the best practices used, or savings achieved. When renegotiating contracts. PSIs should ensure that their contracts allow the sharing of purchasing information with other entities.

Implications and risks if recommendation not implemented

PSIs may pay more than is necessary for goods and services.

1.3 Affordability of the learning system—satisfactory progress

Background

In our *Annual Report (2003*—No. 31), we recommended that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.

Our audit findings

Alternate measures being developed

The Department is making satisfactory progress implementing this recommendation. During 2005 the Department reviewed the definition of affordability and evaluated alternative measures of affordability used across Canada and in the United States. The earliest a new measure would be reported would be in the Department's 2007–2010 business plan and the *2007–2008 Annual Report*.

1.4 Tuition fee policy

1.4.1 Measurement of results—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 32—page 224) we recommended that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.

Our audit findings

Additional surveys planned

The Department is making satisfactory progress implementing this recommendation. The Department is carrying out additional surveys to collect information on the effectiveness of the policy and programs in meeting post-secondary education affordable to students. The Alberta government is reviewing the province's advanced learning system. The review will look at all aspects of Alberta's adult learning system, including current funding, tuition, and affordability.

1.4.2 Tuition fee policy compliance—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 33—page 226) we recommended that the Department of Learning require public post-secondary institutions to comply with the tuition fee policy. We also recommended that the Department clarify the methodology for applying the policy.

Act restricts the amount of tuition charged

In 2004, the *Post-secondary Learning Act* and *the Public Post-secondary Institutions' Tuition Fees Regulation* were enacted and the tuition fee policy revised. The tuition fee sections of the Act restrict the annual amount by which institutions can raise tuition fees.

Our audit findings

Satisfactory progress

The Department is making satisfactory progress implementing these recommendations. In 2005 legislation was clarified with respect to the annual increase calculation used in the tuition fee policy.

1.5 Reliability of Financial Information

In our *2000–2001 Annual Report* (No. 34—page 202) we recommended that the Department ensure that data from PSIs used to support funding and program decision is promptly collected and is reliable. This recommendation has been implemented. The Department has improved the timeliness of the collection of this information and improved the accuracy of the data through additional edits, education programs, clarification in the guidance manual, and departmental review of data.

2. Performance reporting

Unqualified opinion

We have issued an unqualified opinion on the Ministry's financial statements.

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity. Our estimate of the effect on the Ministry's financial statements of expanding its reporting entity would be to increase assets by $5.4 billion and liabilities by $1.3 billion.

We had no exceptions on the specified auditing procedures report on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—University of Calgary

3.1.1 Research management

Background

Second and final phase of research audit completed

In 2004, we reported on the first phase of this audit, which focused on planning research, monitoring research results, and the processes for planning, building, and maintaining research capacity. This year, the second and final phase concentrated on research roles and responsibilities, research policies, project proposals, project management, and accounting for research revenues and expenditures. We plan to follow up the implementation of our recommendations for both phases in 2007.

3.1.2 Research roles and responsibilities

Recommendation No. 18

We recommend that the University of Calgary define research management roles and responsibilities.

Criteria: the standards we used for our audit

1. The University and faculties should clearly define roles and responsibilities for formulating and monitoring compliance with research policy; approving, managing, and monitoring research projects; administering research funds; and supporting researchers.
2. A senior faculty member should oversee faculty research affairs.

Our audit findings

1. **Clear roles, responsibilities and accountabilities**

Policies are deficient

Formulating and monitoring research policy—the Research Development Policy Committee advises the Vice-President, Research and International on research policies. However, not all policies identify who should administer them and ensure compliance.

Approving, managing, and monitoring research—the University has clearly specified the approval process for each type of research proposal.

Principal investigator's roles and responsibilities vary

Sometimes sponsors defined principal investigator's roles and responsibilities. However, documentation of these roles and responsibilities was neither complete nor consistent.

Monitoring occurs

Associate Deans, Research support and monitor research activities in their faculties. Some had detailed documentation of their roles; others did not.

Oversight responsibilities not defined

Administering research funds—Research and Trust Accounting is responsible for accounting control and financial reporting of research funds and has defined its own and researchers' responsibilities for financial management of research funds. However, the University has not defined the oversight responsibilities of department heads, Associate Deans, Research, or deans for the administration of research funds.

Support services roles and responsibilities not clear

Supporting researchers—several groups provide ancillary support services to researchers, including Campus Infrastructure, Legal Counsel, Risk Management, Development Office, and Materials Management. In most cases, their operational roles and responsibilities for research are not clear.

Faculty management provides organizational support

2. **Faculty oversight of research affairs**—the University met the second criterion. Each faculty has an Associate Dean, Research who provides organizational support to researchers.

Implications and risks if recommendation not implemented

The various contributors to research activities may not fulfill their roles and responsibilities adequately if these are not clearly defined.

3.1.3 Research policies

Recommendation

We recommend that the University of Calgary:

- **ensure all research policies are current and comprehensive.**
- **monitor compliance with ethics and intellectual property policies.**

Criteria: the standards we used for our audit

The University should:

1. ensure that research policies provide clear and comprehensive guidance to faculties and researchers.
2. implement mechanisms to ensure research policies are appropriate and current.
3. prescribe signing authorities for research funding.
4. monitor, assess, and enforce policy compliance.

Our audit findings

The University partially met the criteria.

Policies are clear but not current and gaps exist

1. **Clarity and appropriateness of research policies**—research policies are clear. They cover topics such as animal care, contracts, ethics, intellectual property, institutes and centres, overhead and indirect costs, and scholarly integrity. However, gaps exist in the policy

framework. For example, there is no policy on when agreements among institutions are required. Furthermore, some policies may not be current. During 2005, the University was reviewing some policies, but it does not review all policies regularly. The University last updated one policy in 1976 and several others over 10 years ago.

No mechanism to ensure compliance with some policies

2. **Policy compliance**—mechanisms exist to monitor implementation of some policies such as those related to overheads, biohazards and ethics certification. The University requires all projects involving research on human subjects to be certified by ethics boards. These boards need formal mechanisms to monitor compliance with their certifications. Also, no formal mechanism exists to monitor compliance with intellectual property policies. The University does not know whether all researchers are disclosing any intent to commercialize. However, we found that the University had clearly defined the intellectual property rights in the contracts we tested.

Implications and risks if recommendation not implemented

Unless policies are current and comprehensive and the University monitors compliance with them, researchers may not follow them.

3.1.4 Project proposals

Recommendation

We recommend that the University of Calgary and its faculties complete a business case for all large, complex research proposals.

Criteria: the standards we used for our audit

1. The University should identify and capitalize on funding opportunities and faculties and researchers should be aware of them.
2. Faculties should establish clear processes for reviewing proposals.

Our audit findings

Opportunities identified

1. **Identifying funding opportunities**—the University does a good job identifying funding opportunities. Research Services monitors the major sources of funds and accesses databases of opportunities. Communication of opportunities between Research Services and faculties and within faculties works well. Principal investigators we interviewed all said they were well informed of opportunities.

Initiatives increased proposal success rates

2. **Preparing and reviewing proposals**—the University has implemented a number of initiatives to improve the success rate of proposals, including seed funding, workshops, peer reviews, technical

writing assistance, mock assessment committees and a guide to creating a business case for large projects.

Missing elements in business cases

Proposals include elements of a business case. However, key items were often missing, such as how the project aligns with research plans, a cost-benefit analysis, challenges and risks, facilities and equipment required, and project monitoring procedures. In our opinion, these are essential components of project plans, particularly for large, complex projects. Rapid increases in research expenditures create pressure on the University's administrative infrastructure. To accomplish its research plans, the University will need the means to review the cost and quality of proposals, to rank them, and undertakes only those it considers worthwhile within resource constraints.

Proposal reviews completed

Some proposal reviews do occur. One faculty undertakes peer reviews. An advisory group ranks proposals if a granting agency limits the number of applications. In most other cases, we found little evidence of review.

Implications and risks if recommendation not implemented

Proposals that meet sponsor guidelines may still not be cost-effective.

3.1.5 Project management

Recommendation

We recommend that the University of Calgary and its faculties:

- **ensure researchers comply with sponsors' terms and conditions, and**
- **use project management tools for large, complex projects to ensure research is cost-effective.**

Criteria: the standards we used for our audit

Researchers and research teams should:

1. comply with sponsor terms.
2. use project management tools to prepare detailed project plans for complex projects and to manage them cost-effectively.
3. control project expenditures against budgets.

Our audit findings

Work began before agreements were signed

1. Compliance with sponsor terms—for the most part, principal investigators agreed to sponsors' terms and conditions. However, we found a few instances when researchers began work before agreements were signed.

Limited use of project management tools

2. Project management tools—to achieve desired results on time and within budget in large, complex projects require some form of progress monitoring against milestones or deliverables established in a plan. For project planning, the University essentially relies on sponsor requirements whose level of detail varies. No principal investigators we interviewed had developed more detailed plans. As noted above, proposals typically lacked essential components of project plans. Except for the financial reporting system, principal investigators do not use project management tools to monitor and control the progress of their projects. However, the University does put on project management workshops for researchers.

Tracking systems deficient

3. Controlling expenditures—the Financial Information Network is a real-time system that provides information for researchers on project revenues, expenditures, and commitments. However, the system does not track actual-to-budget revenues and expenditures, a key tool of financial control and project management.

Implications and risks if recommendation not implemented

Without adequate project management, projects may not be cost-effective.

3.1.6 Accounting for research revenues and expenditures

Recommendation

We recommend that the University of Calgary improve financial controls on research accounts.

Criteria: the standards we used for our audit

Research and Trust Accounting should maintain accounts and charge overheads properly and promptly bill contract revenue.

Our audit findings

Satisfactory progress on management of over-expended accounts

Last year, we recommended that the University improve over-expenditure controls in research and trust accounts. Progress in implementing that recommendation is satisfactory. However, this year we identified other aspects of research and trust accounting that require improved controls.

Controls need to be strengthened

Research and Trust Accounting kept research accounts current, did not make any improper charges, and charged overheads appropriately. However, it needs to strengthen controls over setting up accounts, monitoring certifications, making advances to other institutions, transferring expenditures between accounts, documenting travel claims, signing financial reports, and sending reports and invoices to sponsors.

Implications and risks if recommendation not implemented

Funds may be misspent if controls are not in place.

3.1.7 University of Calgary internal control systems—satisfactory progress

Background

Weaknesses in internal controls

In our *2002–2003 Annual Report* (No. 35—page 238) we recommended that the University of Calgary improve its internal control systems.

Our audit findings

Satisfactory progress

During 2005, the University made satisfactory progress implementing the recommendation. The University developed new policies and procedures including a Fraud Policy and a revised Signing Authorities Policy. The University's Senior Manager's Internal Control Group held four meetings this year and also developed controls and processes for its new financial systems, two modules of which were installed in August 2005.

Steps to improve internal controls

To finish implementing this recommendation, the University must show that it has:

- completed comprehensive internal control reviews and resolved any identified deficiencies in internal controls
- demonstrated that its new financial systems when operating, have adequate internal controls to ensure that financial data is reliable
- processes to monitor and enforce compliance with stated control requirements.

We will continue to monitor the University's progress implementing this recommendation.

3.1.8 Application development methodology at University of Calgary—satisfactory progress

Background

In our *2001–2002 Annual Report* (No. 44—page 207) we recommended that the University of Calgary implement a formal methodology to design, develop, implement, test and maintain software applications. Last year, we reported that the University made satisfactory progress by developing an "IT Definition and Delivery Model" which incorporates elements of application development methodology.

Our audit findings

Satisfactory progress

This year, the University continued to make satisfactory progress implementing the recommendation.

Project Support Office established

The University recently established a Project Support Office. This Office will further develop and support the use of application development methodology, as well as ensure that project teams comply with the University's methodology. The University also plans to extend its application development methodologies to teaching and research applications. The University applied a separate and formal application development methodology exclusively in the development of new financial systems.

To implement this recommendation, the University must show it has a complete and formally documented application development methodology. It must also show that it is consistently applying the methodology.

3.1.9 Capital construction projects at the University of Calgary—satisfactory progress

Background

In our *1999–2000 Annual Report* (No. 38—page 233) we recommended that the University of Calgary improve its capital project management systems by ensuring that project proposals fit with the long-term campus plan. We further recommended that project management controls be strengthened. Last year, we reported that the University implemented the first part of the recommendation and made satisfactory progress on project management controls.

Our audit findings

Satisfactory progress

This year, the University made satisfactory progress addressing the rest of the recommendation, on project management controls.

Project Manual implemented

The University implemented its *Project Delivery Process Manual* that instructs staff on procedures for managing capital and renovation projects. To finish implementing this recommendation, the University must show that it has processes for ensuring that:

- project sponsors approved change requests.
- the approval process for contractor billings is followed.
- contractor and project management staff are consistently evaluated and evaluations are documented.
- on a sample basis, post-contract completion audits are completed by internal audit.

3.2 Athabasca University—Information Technology Strategic Planning for Administrative Systems

3.2.1 Information technology planning and governance

Recommendation No. 19

We recommend that Athabasca University improve its information technology planning and governance by:

- **completing the definition of its overall information technology strategy, and preparing and implementing a plan to achieve the strategy**
- **adopting a formal information technology internal control system framework**
- **creating an overall steering committee to manage information technology**

Background

The University has separate systems performing the following administrative functions:

- general ledger and accounts payable
- accounts receivable
- materials inventory
- budgeting
- contracts management
- purchasing
- payroll
- email

The University has implemented these systems over time from 1993 to the current date.

Criteria: the standards we used for our audit

The University should:

- determine its strategy for ensuring information technology will align with the business operations and fit the long term needs of the University
- develop a plan to ensure the strategy will be implemented
- have administrative systems which:
  - meet University needs not currently met by other University systems
  - easily integrate with other systems and have reasonable processing speed
  - are available to the users
  - allow the University to quickly add and remove functionality,

increase and decrease processing capability and add and remove capacity.
- minimize levels of data re-entry and manual effort required to complete processes

Our audit findings

More needed in information technology plan

The first and second criteria have been partially met. The University has appointed a Chief Information Officer (CIO) to provide cross-departmental leadership in the management of technology. The CIO is in the process of developing a new Information Technology Plan. We were provided with a draft of the plan. The plan sets out a number of strategic objectives. From experience we have observed that similar plans also included additional items such as:

- a clearly outlined risk position and the University's technological direction. This would include indicating whether the University wants to have leading edge IT systems or use established "road-tested" systems. It would also state the extent to which new technologies such as wireless and ecommerce will be considered.
- a definition of common infrastructures that will be used
- how IT will align with and support each business objective
- management of IT human resources including identifying if new IT human resources are required
- external compliance requirements
- internal IT audit function plans
- planning for post-implementation reviews

The University, as yet, has not developed an implementation plan as to how its objectives in the plan will be met or coordinated.

IT framework should be used

The University does not use an overall IT management internal control framework such as the Control Objectives for Information and Related Technology (COBIT) produced by the Information Systems Audit and Control Association. Using such a framework would help to identify gaps in internal control over strategic planning. The framework will also help management to identify gaps in internal control in other key IT processes such as computer operations, network operations, systems development, acquisition, business continuity planning, outsourcing and monitoring.

Current systems do not meet all of University needs

The remaining criteria have been partially met. The University has administrative systems that are able to produce information that the University needs. However, the systems do not provide the full functionality required by the University and are not sufficiently integrated, and thus require in some cases a significant amount of manual intervention to complete processes.

A primary objective of IT systems is to ensure systems meet business needs. However, since the University uses so many different systems we believe this approach results in a more costly IT operation for the University.

Overall steering committee needed

The draft IT plan envisions having the CIO and three steering committees which have some common membership across all as the primary governance model. There is no single committee providing overall direction. Without an overall steering committee the University runs the risk of not being able ensure common standards are maintained consistent with the University's overall strategic direction for IT. Sufficient coordination did not occur previously and is likely the reason, at least in part, why the University has three different email and calendar systems, more than one contract registry system and systems in so many different programming languages.

Implications and risks if recommendation not implemented

Without a complete overall IT strategy defined and the mechanisms in place to ensure the strategy will be carried out, the University runs the risk of:

- spending more on IT systems than is necessary
- not receiving the planned quality of the IT systems
- not achieving business objectives which require substantial IT input/support.
- having inadequate resources to support current IT systems and/or new projects.
- compromising the confidentiality, integrity and availability of data.

3.2.2 Cost tracking system

Recommendation

We recommend Athabasca University implement a system to quantify the costs of developing and operating Information Technology (IT) systems.

Criteria: the standards we used for our audit

The University should be able to track the costs associated with developing and maintaining the systems.

Our audit findings

The University does not have a system to track detailed ongoing maintenance and upgrade costs for specific systems.

Implications and risks if recommendation not implemented

The University will not be able to determine the effectiveness of IT resources invested in IT unless they develop a method to measure and track the information.

3.3 Mount Royal College

3.3.1 Retention and severance agreements

Recommendation

We recommend that the Mount Royal College Board of Governors examine its governance process to ensure that committee decisions, which are not ratifications of management decisions, be confirmed at the board level.

Recommendation

We recommend that the Governance and Human Resources Committee of the Mount Royal College Board of Governors ensure that minutes of meetings include all its decisions and supporting reasons.

Background

Agreements with vice-presidents

At the request of Mount Royal College's Board of Directors, we audited the processes of its Governance and Human Resources Committee in deciding to enter into agreements with three vice-presidents of the College. Under the agreements, the College paid a one-time retention bonus of $50,000 to each of the three vice presidents. The key term in each agreement was that the vice-president had to remain employed by the College until a specified date (for one executive, this was July 31, 2004; for the other two, December 31, 2004).

Governance and Human Resources committee members took management role

Literature on governance states that boards, or their committees, should examine, discuss and challenge management recommendations and decisions. Because the former president of the College was not involved in the bonus decision, the Governance and Human Resources Committee members took on a management role in this case.

Criteria: the standards we used for our audit

The Governance and Human Resources Committee should follow an appropriate process in reaching, documenting, and reporting decisions.

Our audit findings

No board level review or challenge of decision

The Governance and Human Resources Committee decision to enter into the retention contracts with the three vice-presidents was not confirmed at any other level of the Board. We found that the Committee followed an appropriate process—except for the absence of board-level review and confirmation (or critical challenge) of the decision, which are key parts of good governance.

We cannot conclude that the Governance and Human Resources Committee's decision would have been different if another committee or the Board as whole had discussed the decision. The Committee achieved the goal of retaining the vice-presidents until the end of 2004.

No minutes to confirm decision

We could not find any record, formal or informal, of a Committee or Board motion being made or passed or any references in the minutes of the decision to pay the bonuses. We concluded that documentation practices were deficient as the Committee or Board minutes did not contain an approved motion.

Implications and risks if recommendation not implemented

Without a challenge and confirmation of decisions, the College may not get the best decisions or the best value for money.

Without proper support, the Board is unable to demonstrate that an action is consistent with a decision and that a decision was based on evidence and proper review.

3.3.2 Governance and Human Resources Committee Charter

Recommendation

We recommend that the Mount Royal College Board of Governors clarify in the Governance and Human Resources Committee Charter the authority of the Governance and Human Resources Committee to make all compensation decisions for vice-presidents.

Criteria: the standards we used for this audit

1. An approved Committee Charter should exist and clearly state that the Board has delegated to the Committee the authority to make compensation decisions.
2. The Committee should act within its authority under the Committee Charter.

Our audit findings

Approved Charter existed but unclear

The Board's Governance and Human Resources committee charter was approved by the Board in September 2002. The Charter is unclear as it does not expressly mention retention bonuses nor does its general language clearly state that the committee has the authority to approve non-standard payments such as retention bonuses.

Committee authority not clear

Due to the lack of clarity in Charter, we could not conclude if the Committee acted within its authority.

Implications and risks if recommendation not implemented

Without clear delegation of authority, committees may inadvertently act beyond their authority or may not fully meet their responsibilities. Also, the Board will be limited in its ability to monitor committees' compliance with their delegated authority.

3.4 Lakeland College

3.4.1 Budget monitoring

Recommendation

We recommend that Lakeland College improve the monitoring of actual results in comparison to budget.

Criteria: the standards we used for this audit

Management is responsible to have controls in place to ensure that variances from the budget are investigated, and take appropriate and timely corrective action in the event of large discrepancies.

Our audit findings

The College had the following budgeted and actual annual results in the last three years.

	Budget	Actual
2002	$ (700,000)	$ (5.6 million)
2003	950,000	(1.6 million)
2004	128,000	(821,000)

At the Board meeting just before the year-end, management forecasted that the College would end up with a small surplus at the end of 2004. The College needs to improve its forecasting of revenues and expenses on a timely enough basis so that action can be taken when appropriate to ensure the College's fiscal goals will be met.

Implications and risks if recommendation not implemented

Inability to effectively monitor and manage the budget will result in tighter financial restrictions for future years.

3.4.2 fire etc. (Emergency Training Centre)

Billing processes

Recommendation

We recommend that adequate processes be implemented so that students are accurately billed when they register for a program and overdue accounts can be followed up on a timely basis.

Background

fire etc. was a subsidiary of Lakeland College. Effective July 1, 2004, fire etc. was amalgamated with Lakeland College.

Criteria: the standards we used for our audit

Processes should be implemented so that students are accurately billed when they register for a program, tuition is accurately recorded, and overdue accounts are followed up promptly.

Our audit findings

The School did not accurately record or properly manage revenues and accounts receivable in 2004. For example:

- credit balances were posted to accounts receivable instead of revenue.
- duplicate billings were recorded.
- payments were not applied to specific invoices.
- a process was not in place to follow-up overdue accounts.

Implications and risks if recommendation not implemented

Having poor control over accounts receivables increases the likelihood that the School will not collect the money owing to it.

3.5 Grant MacEwan College

3.5.1 Financial processes—satisfactory progress

Background

We previously recommended that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting (*2001–2002*—No. 45)

Our audit findings

The College has made satisfactory progress in implementing this recommendation. The College has undertaken an extensive review of its control processes and is making improvement over the process for preparing financial statements.

3.5.2 Computer control environment

Recommendation

We recommend that Grant MacEwan College resolve identified deficiencies and strengthen the overall control framework in the Information Technology (IT) environment.

Background

We first made this recommendation in 2002 to the College.

Criteria: the standards we used for our audit

The College should have processes which ensures:

- segregation of incompatible functions
- proper change control
- continuous service
- system security
- risks are assessed

Our audit findings

While the College has made some improvements overall progress is unsatisfactory.

The following improvements are still required:

- Roles and responsibilities for security definition, implementation and monitoring for compliance need to be clearly documented.
- A formal change management process needs to be implemented for production environments.
- A draft disaster recovery plan has been prepared but not implemented.
- A process needs to be defined to clean up expired accounts and inactive home directories. Also, consistent incident management and reporting procedures need to be deployed for all computer environments.
- A formal framework for assessing IT risks needs to be developed.

Implications and risks if not recommendation not implemented

Until these improvements are made, the College may not be able to guarantee the availability, integrity, and confidentiality of its systems and data.

3.6 Northern Alberta Institute of Technology's due diligence processes

Background

Fairview College's assets and liabilities transferred to NAIT

The Northern Alberta Institute of Technology (the Institute) asked our Office to examine its due diligence processes related to an agreement with Fairview College. The Board of Governors of both Fairview College and the Institute signed an agreement to transfer all assets, liabilities, net assets, revenues and expenditures of Fairview College to the Institute effective July 1, 2004.

Criteria: the standards we used for our audit

1. The Institute Board should establish a clear strategic mandate and related principles to guide decision making for the proposed merger. The Institute should measure the actual outcomes of the merger against these guiding principles.
2. The Institute should implement/adopt project management of the due diligence process that is appropriate and adequate for the merger.
3. The Institute should appropriately consider post-closing integration planning as part of the due diligence process. The Institute should:
   - adequately consider integration matters in the due diligence framework;
   - include key individuals involved in conducting due diligence in the integration planning to ensure a seamless hand-over between committees; and
   - adequately document integration/transition matters and action points arising from due diligence for subsequent follow-up

Our audit findings

All criteria met.

The Institute met all the criteria. The Institute Board established a mandate and supported the strategic rationale for the merger. The Institute documented the mandate in the partnership principles.

Senior management involved. Comprehensive due diligence checklist used.

The Institute established a Due Diligence Steering Committee that included senior management with previous experience with mergers. The Institute's senior management, including key decisions makers from the Institute Board, were involved in all aspects of the due diligence process from planning, execution through to reporting. The Institute developed a due diligence checklist to address the risks of the proposed merger. It contained the elements of the partnership principles and was comprehensive.

Institute developed transition plans.

The Institute developed detailed transition plans for critical integration activities such as human resources and information systems, and the Transition Steering Committee held frequent meetings and minutes were documented. Senior management was involved in significant transition activities.

Due diligence framework and checklist on our web-site for others to use

We developed a due diligence framework and made changes to the due diligence checklist that the Institute developed. We have posted the framework and checklist on our web-site (www.oag.ab.ca) under the Literature link, so that other organizations can use them in the case of future mergers.

3.7 University of Alberta budgeting processes

3.7.1 University of Alberta—basis for measurement for budget—implemented

Recommendation implemented

Previously in our *1999–2000 Annual Report* (No. 36—page 228) we recommended that the University of Alberta corporate level budget be presented on a GAAP basis and that it encompass all operating, financial and investing transactions. The University has implemented this recommendation.

3.7.2 University of Alberta—net assets—satisfactory progress

Satisfactory progress

Previously in our *1999–2000 Annual Report* (No. 37—page 230) we recommended that the University of Alberta calculate the level of net assets required to ensure that programs and facilities continue to be supported. The University has made satisfactory progress. The University identified eliminating its unrestricted net deficit as the first step in implementing this recommendation. The University met this target in 2005.

3.8 Internal control systems at the University of Alberta

3.8.1 University of Alberta internal control systems—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 34—page 235) we recommended that the University of Alberta improve its system of internal control.

Our audit findings

Progress is satisfactory

During 2005, the University made satisfactory progress implementing this recommendation.

The University developed a significant number of policies and procedures and provided training to department and faculty staff. A document explaining the University's overall internal control framework is in draft and is expected to be completed in 2005–2006.

The University had a group of faculties complete an internal control self-assessment guide. The University anticipates that by having faculties complete the guide, remaining gaps and deficiencies in internal control will be identified. Once these gaps have been identified the University may need to develop additional policies and processes. The University will also need to establish processes to monitor and enforce compliance with the stated control requirements.

While we believe satisfactory progress has been made by the University, this area continues to require the support of University senior management to ensure that appropriate resources are brought to bear to resolve this issue.

3.9 SAIT

3.9.1 Business case analysis—implemented

On page 219 of our *2000–2001 Annual Report*, we recommended that the Institute improve the business case analysis for major projects and strengthen project management controls. Last year, we observed satisfactory progress for the major projects undertaken during 2003–2004. We continued to follow up on this recommendation in 2004–2005 and found that the Institute completed sufficient business cases for all major projects conducted during the year. We also noted that the Institute has strengthened its project management controls. We have concluded that the recommendation has been implemented.

3.10 Other matters in auditor's report

Our auditor's report on the financial statements of the Olympic Oval/Anneau Olympique had a reservation of opinion because the statement of base operating costs and revenue did not include all the revenues and expenses arising from the University's use of the Oval facility. The amount of the excluded revenues and expenses was not reasonably determinable.

Agriculture, Food and Rural Development

Summary: what we found in our audits

Systems

The Department needs to evaluate the performance of its grant programs in meeting Ministry goals—see page 113.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—Agriculture Financial Services Corporation (AFSC)
  AFSC should:
    - improve the controls for awarding loans under the Beginning Farmer Loans program—see page 116.
    - develop a human resource plan for lending that identifies the skills and staff required to deliver farm lending programs, develop measures to assess if the objectives of the Beginning Farmer Loans program are met, and monitor the lending operational plan against results achieved—see page 118.
    - improve the controls over the administration of the Canadian Agricultural Income Stabilization program—see page 120.
    - thoroughly test its methodology to determine Canadian Agricultural Income Stabilization program advances before making advance payments—see page 123.

- Performance reporting—Agriculture Financial Services Corporation (AFSC)
  Our auditor's report on the financial statements of AFSC is unqualified.

Overview of the Ministry

The Ministry's 2004–2007 business plan describes three core businesses:

3 core businesses

- facilitate sustainable industry growth
- enhance rural sustainability
- strengthen business risk management

Ministry received $794 million

The Ministry received $794 million in revenue from external sources in 2004-2005. The following represent the largest revenue sources of the Ministry:

	(millions of dollars)
Transfer from the Government of Canada	506
Premiums from insured persons	136
Interest and investment income	81
Fees, permits, licenses, and other revenue	52
Reinsurance recoveries	2

Ministry spent $1.337 billion

In 2004–2005, the Ministry spent $1.337 billion. The largest programs in the Ministry are:

	(millions of dollars)
Farm income support	529
Insurance	284
BSE recovery program	147
Industry development	138
Sustainable agriculture	46
Debt servicing costs	45
Planning and competitiveness	37

For more detail on the Ministry, visit its website at www.agric.gov.ab.ca .

Scope: what we did in our audits

1. Systems
   We followed up on recommendations from our 2004 *Report of the Auditor General on the Alberta government's BSE-related assistance programs*. We also followed up recommendations from our *1999-2000 Annual Report* (No. 5—page 39) related to core businesses and our *2000–2001 Annual Report* (No. 3—page 50) related to grant management.

2. Performance reporting
   We audited the financial statements of the Ministry and the Department for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

We performed the following work at the Agriculture Financial Services Corporation:

- examined the Corporation's systems for awarding loans under the Beginning Farmer Loans program.
- examined the Corporation's systems for making payments under the Canadian Agricultural Income Stabilization program.
- audited the financial statements of the Corporation.
- completed claims compliance audits for the federal government.

The Agricultural Products Marketing Council, Alberta Grain Commission, Farmers' Advocate, Irrigation Council, and Crop Reinsurance Fund of Alberta do not produce separate financial statements.

Our audit findings and recommendations

1. Systems

1.1 Report on the Alberta government's BSE-related assistance programs

1.1.1 Risk assessment—satisfactory progress

Background

Complete risk assessment

In our *2003–2004 Annual Report* (No. 3—page 80), we recommended that the Department complete a risk assessment that analyzes the probability and impact of major risks to the agriculture and agri-food industry in Alberta. We also recommended that the Department develop risk mitigation and response strategies based on the results of the risk assessment.

Our audit findings

Working group established, schedule set

The Department has made satisfactory progress. It established a working group to complete the risk assessment. The Department's Executive Committee approved the working group's scope. The working group has set November 2005 to complete the risk assessment.

To implement this recommendation, the Department needs to complete its risk assessment, determine the impact of major risks, and identify risk mitigation and response strategies.

1.1.2 Testing targets—implemented

Background

BSE testing quotas

In our *2003–2004 Annual Report* (No. 6—page 82), we recommended that the Department, working with the federal Canadian Food Inspection Agency (CFIA) and the beef and related industries, ensure that Alberta meets its contribution to Canada's BSE testing quota.

Our audit findings

BSE testing quotas exceeded

The Department has implemented this recommendation. Alberta's portion of Canada's BSE testing quota for 2004 was 2,780 samples. Alberta tested 11,747 samples for 2004. Alberta's portion of Canada's BSE testing quota for 2005 is 10,245 samples. Alberta has tested 21,482 samples up to the week ending August 27, 2005.

CABESP helped increase samples received

The Canada-Alberta BSE Surveillance program (CABSESP) was announced in September 2004. CABSESP encouraged producers to submit eligible samples, which allowed Alberta to meet its contributions towards Canada's BSE testing quotas for 2004 and 2005. The program cost the Department $10.1 million for the year ended March 31, 2005.

1.1.3 Measurable targets—satisfactory progress

Background

Set measurable targets

In our *2003–2004 Annual Report* (No. 4—page 81), we recommended that the Department establish measurable targets for its emergency financial assistance programs.

Our audit findings

Measurable outcomes set

The Department has made satisfactory progress. The Department's new 2004–2005 BSE programs contained measurable outcomes. This is an improvement over the 2003–2004 BSE recovery programs that did not contain measurable outcomes. However, the Department did not develop targets to measure the outcomes against for the 2004–2005 BSE programs.

To implement this recommendation, the Department needs to set measurable targets for its future emergency financial assistance programs.

1.1.4 Contingency planning process—implemented

Background

Implement a contingency planning process

In our *2003–2004 Annual Report* (No. 5—page 81), we recommended the Department, working with other governments and industry, immediately develop and implement a contingency planning process.

Our audit findings

Critical Issues Management team established

The Department implemented this recommendation. The Department established a Critical Issues Management team as its internal mechanism to deal with contingency planning.

Contingency plan developed

The Department developed a contingency plan focused on two planned court hearings in the United States on July 13 and July 27, 2005. The plan identified potential outcomes of the court hearings and the short-, medium- and long-term actions the Department would take to deal with the potential outcomes. The Department consulted industry groups and its Federal-Provincial colleagues when developing its contingency plan.

The Department developed the contingency planning process to deal with BSE problems. The Department will apply the same contingency planning process to unmitigated risks identified through the risk assessment process now underway.

1.2 Grant management system—unsatisfactory progress

Recommendation No. 20

We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs. (*2000–2001*—No. 3)

Background

We originally made this recommendation in our *2000–2001 Annual Report* (No. 3—page 50).

Examined nine grant programs

We followed up on our recommendation this year by examining nine grant programs and one individual grant from each of the nine programs from the 2003–2004 fiscal year. We selected this year to allow time for the accountability reporting activities required in the grant agreements to occur.

Criteria: the standards we use for our audits

The Department should:

1. periodically evaluate the performance of its grant programs.
2. establish quantifiable performance measures and targets for its grant programs.
3. conduct post-completion evaluations for individual grants awarded.
4. define reporting requirements for individual grants that include outcomes.

Our audit findings

The Department has not made satisfactory progress implementing the recommendation. The Department indicated that as a result of focusing its resources on the design and delivery of emergency financial assistance programs, it has been unable to implement our 2000–2001 recommendation.

Grant programs not evaluated

Five of nine grant programs we examined from 2003–2004 did not have a program evaluation or had outdated evaluations. The Department last evaluated the Agriculture Initiatives Program in 1998. The term of the Program originally approved by the Minister in 1997 expired in 2002, yet the Program continues. The Irrigation Infrastructure program was last evaluated in 1994. The Department has never evaluated the Canada-Alberta Farm Water and the Business Agriculture Processing programs.

Quantifiable targets and measures not set

Six of nine grant programs that we examined from 2003–2004 did not have quantifiable targets or performance measures established. Of the three programs that did have quantifiable targets or performance measures established, the Department staff did not complete a comparison between results and targets for one of the three grant programs.

Post-completion evaluations not completed

Three of the nine individual grants that we examined from 2003–2004 were not complete, so it was not practical for the Department to evaluate the performance of the individual grant recipients. Of the remaining six which were complete, four of the individual grants did not have a post-completion evaluation. The purpose of the evaluation is to assess the performance of the grant recipients and to assess and improve the performance of the Department's grant management team.

Generally reporting on outcomes is completed

The reporting requirements in the grant agreements included outcomes for seven of the nine individual grants that we examined from 2003–2004. For the Business Agriculture Processing and Irrigation Infrastructure grants examined, the Department did not include a requirement for outcome or results reporting in the grant agreements.

To implement the recommendation, the Department must develop a system to periodically evaluate the performance of its grant programs, establish quantifiable performance measures and targets for its grant programs and conduct post-completion evaluations for individual grants awarded.

Implications and risks if recommendation not implemented

The Department may not achieve its intended results if it does not complete periodic evaluations of its grant programs and the individual grants that it awards.

1.3 Core businesses—implemented

Background

Structure business plan around core businesses

In our *1999–2000 Annual Report* (No. 5—page 39), we recommended that the Ministry business plan be enhanced by structuring it around core businesses, each embracing one or more goals, performance targets related to those goals, strategies designed to achieve those goals, and the budget for the necessary resources.

Our audit findings

Business plan now structured around core businesses

The Ministry implemented this recommendation. Since we made this recommendation, the Ministry of Finance issued the Government of Alberta business planning standards. The Ministry now follows those standards in preparing its business plan. We reviewed the 2004–2007 Ministry Business Plan (the plan) and found the plan identifies the Ministry's core businesses and includes goals, performance measures, targets, defined strategies and budgeted resources structured around the core businesses.

2. Performance reporting

Our auditor's reports on the Ministry and Department's financial statements for the year ended March 31, 2005 were unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems audits at Agriculture Financial Services Corporation

3.1.1 Beginning Farmer Loans program

Background

BFL loans have an interest rate discount

The Beginning Farmer Loans program (BFL) is the Agriculture Financial Services Corporation's largest lending program. At March 31, 2005, there were 8,176 loans outstanding with a value of $667 million. The BFL objective is to assist Alberta farmers to start and develop viable farming operations.

Individuals are eligible for new loans under the program until they develop a viable farm. There are no age restrictions for the program or guidelines used by the Corporation to determine how long it should take to develop a viable farm. The Corporation has developed criteria to assess prospective borrowers to determine if they have operated a viable farm.

The maximum loan available under the BFL is $500,000 per individual or $2 million for four or more individuals farming together. The Corporation offers a 1.5% interest rate discount to borrowers in the first five-years of the loan. The maximum principal eligible for the discount is $300,000 per individual. The interest rate discount cost the Corporation $5.4 million in 2004–2005.

The Corporation has defined eligibility criteria for the program. A borrower must:
- be a Canadian citizen or landed immigrant and meet Alberta residency requirements;
- not have operated a viable farm where the borrower owns the farmland;
- show that farming is, or will become, the principal occupation during development years;
- demonstrate production and financial management skills;
- have a minimum of 20% equity in the proposed project.

The Corporation has established five developmental phases of farming to assess if borrowers have met the eligibility criteria that the borrower has not operated a viable farm where the borrower owns the farmland. A borrower must be in one of the first three developmental phases of farming to be eligible for a loan under the program.

The first developmental phase of farming is the start-up mode with little capital invested in the farm and little asset ownership. As a farm progresses through the remaining four developmental phases, the commitment to farming increases, the level of capital invested and ownership of assets increases, and the dependency of the farm on off-farm income decreases.

3.1.1.1 Awarding Beginning Farmer Loans

Recommendation No. 21

We recommend that the Agriculture Financial Services Corporation:
- **clearly define eligibility criteria for the Beginning Farmer Loans program.**

- **document its evaluation of the loan applicant against the program eligibility criteria.**
- **analyze the borrower's financial condition before approving the loan in accordance with its procedures.**
- **monitor accounts in arrears in accordance with its procedures.**
- **complete an analysis to support the level of program fees charged.**
- **monitor and evaluate the borrower against the eligibility criteria required to earn the interest rate discount.**

Criteria: the standards we used for our audit

The Corporation should:

- clearly define program objectives and eligibility criteria.
- award and administer loans in accordance with its policies and procedures.

Our audit findings

The Corporation partly met the two criteria.

Objectives and eligibility criteria defined

The Corporation has defined the BFL objectives and eligibility criteria. It also defined qualitative and quantitative characteristics for the five developmental phases of farming. The characteristics include ownership of assets, the farm's cash flow, debt and equity levels, and dependency of the farm on off-farm income. The following observations are areas where the Corporation has not met the audit criteria.

Characteristics not clear

The qualitative characteristics for each developmental phase of farming are not well defined and are thus open to interpretation and judgment. The Corporation has not developed guidance for interpreting the qualitative characteristics within the developmental phases of farming. For applicants that span multiple developmental phases, there is no guidance to assess which characteristics, if any, are more significant in assessing the appropriate developmental phase. Also there is no guidance on the number of characteristics that must be satisfied to approve a loan.

Files do not show eligibility criteria met

We examined a sample of 20 loans awarded under the program from the previous three years. For all 20 loans, there was not sufficient documentation on file to show that the borrower met all of the program eligibility criteria. Also, the Corporation did not sufficiently document its evaluation of the applicant against the developmental phases of farming for 19 of the 20 loans to determine that the borrower had not operated a viable farm where the borrower owns the farmland.

The Corporation did not assess the borrower's financial condition in accordance with its policies for 6 of the 20 loans we examined.

Repayment arrangements not agreed to in writing

The Corporation has procedures for monitoring loans that are in arrears. We examined five loans in arrears and found evidence that the loan officer has been in contact with borrower. However, the loan officers did not obtain agreement in writing on repayment arrangements with the borrower as required by Corporation procedures.

The Corporation's complied with its Schedule of Fees for loans, renewals and amendments for the 20 loans that we examined. However, the Corporation does not have a methodology in place to determine the appropriateness of fee levels for all lending services that it provides.

Interest rate discount criteria not monitored

The Corporation has defined criteria the borrower must meet for the first five years of the loan to earn the interest rate discount. However, the Corporation did not monitor the borrower's compliance with these criteria for the 20 loans we examined.

Implications and risks if recommendation not implemented

- Without clearly defined eligibility criteria, the Corporation may approve interest rate discounts to applicants that do not meet the program eligibility criteria.
- By not complying with its lending procedures, the Corporation increases its exposure to credit losses.

3.1.1.2 Managing the Beginning Farmer Loans program

Recommendation No. 22

We recommend the Agriculture Financial Services Corporation:

- **develop a human resource plan for lending that identifies the staff and skills required to deliver farm lending programs.**
- **develop measures to assess whether the objectives of the Beginning Farmer Loans program are being met.**
- **monitor the operational plan against the results achieved and report on those results.**

Criteria: the standards we used for our audit

- The program should be adequately planned and resourced.
- The Corporation should develop relevant performance measures to evaluate if the program is meeting its intended objectives.
- The Corporation's management should periodically monitor and report against its plans.

Our audit findings

The Corporation partly met the three criteria.

Business and operational plans exist

Planning and resourcing—The Corporation has a business plan in place and the lending division has an operational plan in place. These are the two main planning documents that guide the activities in the lending division.

HR plan not sufficiently specific

The Corporation has a human resource plan in place, which focuses on competencies, strategies for recruitment and retention, role statements and demographic highlights for management, professional and administrative support staff. However, the human resource plan does not provide enough detail to guide the Corporation in determining the required staffing levels and skills required for its loan officers.

Reorganization should improve ability to monitor workloads

The Corporation is currently reorganizing staff in the lending division and developing benchmarks to assess the workloads of lending staff. These benchmarks will improve the Corporation's ability to monitor workloads.

Business plan measures

Performance measures—The Corporation's 2004–2007 Business Plan includes goals and identifies key results, measures and targets for each goal. The measures that relate specifically to the Beginning Farmer Loans program are:

- number of BFL loans;
- total loan amount;
- number of subsequent loans to existing borrowers;
- number of financial consultations with farmers.

Measures do not link to program objectives

These measures are all activity-based measures. There are no measures to assess whether the loans approved are helping the Corporation achieve the objectives of the program to assist farmers to start and develop viable farms.

Corporation does not monitor changes in viability

The Corporation has defined viability through the developmental phases of farming. However, the Corporation does not monitor progression by a farming operation through the developmental phases of farming. Once the Corporation awards the loan, the Corporation does not collect the necessary information from the borrower to measure changes in viability.

Impact of discount not measured

The Corporation also does not measure the impact of the interest rate discount on a farmer's operation or the appropriateness of the level of the interest rate discount at 1.5%.

Operational plan not monitored and reported against

Monitoring and reporting—The Corporation has an operational plan for the lending division that includes the goals, key results, measures and targets for the lending division. For each goal, there are strategies identified and actions outlined. Each action is assigned to a specific individual or committee. As well, certain actions have been assigned a due date. However, we could not find evidence to support periodic monitoring and reporting on the status of the strategies and actions set out in the operational plan.

Implications and risks if recommendation not implemented

The Corporation may not:

- deliver the program in an efficient and effective manner if it does not have the necessary number of loan officers or appropriately skilled loan officers.
- attain its intended results if management cannot assess if the objectives of the program are being met.
- achieve the actions identified in its operational plan if the results are not monitored and reported on.

3.1.1.3 Administering the Canadian Agriculture Income Stabilization program

Recommendation No. 23

We recommend the Agriculture Financial Services Corporation improve controls over the administration of the Canadian Agricultural Income Stabilization program by:

- **documenting its policies and procedures.**
- **strengthening its claim verification procedures.**
- **maintaining sufficient documentation on file.**
- **developing criteria for waiving the application of the structural change.**
- **developing criteria to identify high-risk participants.**
- **testing spreadsheets before implementing them.**

Background

The federal and provincial governments introduced the Canadian Agricultural Income Stabilization (CAIS) program for the 2003 claim year. The CAIS program provides Canadian agricultural producers with an ongoing risk management tool to protect producers against decreases in farm income.

The Governments of Canada and Alberta share the costs of the CAIS program with the Government of Canada paying 60% and Alberta paying 40% of the program costs. The Corporation administers the program in Alberta. At March 31, 2005, the Corporation had paid out $440 million in claims under the CAIS program.

Criteria: the standards we used for our audit

Claim processing controls should be in place to ensure the Corporation determines CAIS program payments accurately and completely.

Our audit findings

Program changed several times during the year

Polices and procedures—The CAIS program is a national program created under the Agriculture Policy Framework. The CAIS program underwent several major changes throughout 2004 that affected program deadlines, deposit requirements, payment caps and coverage of negative margins. The program changes at the national level caused changes to the Corporation's processes and controls throughout the year.

Policies and procedures not completed

The Corporation began processing CAIS claims in December 2003. However, the Corporation did not implement draft CAIS operational policies and procedures until December of 2004. The policies and procedures implemented in December 2004 were not complete, resulting in the following processes and controls used to determine CAIS claims that were not adequate.

Manual data entry led to errors

Manual data entry—CAIS administration staff manually enter data to process claims. In a sample of 59 claims examined, we identified 16 claim errors due to the incorrect entry of data into the CAIS system. The combination of these errors resulted in the Corporation overpaying 11 participants by $283,000 and underpaying 5 participants by $216,000.

Results of reasonability tests not documented

Reasonability tests—The Corporation has developed reasonability tests to assess the accuracy of the data submitted by the participant. CAIS administration staff are required to document the results of the reasonability tests on the claim file. In 15 of 47 claims we examined, the Corporation did not explain variances from the reasonability tests that exceeded thresholds or the reasonability test was not completed at all.

Information not shared

Sharing of information—The Corporation maintains information that it could use to verify information within CAIS applications. CAIS staff verifies information such as crop insurance premiums and crop insurance payouts. There is no verification of other common information, such as crop yields, reported by the participant through CAIS against information already maintained by the Corporation.

Information used was incomplete

The Corporation used a list of BSE payments from the Department of Agriculture, Food and Rural Development as its control to verify BSE payments reported on CAIS applications. However, the list the Corporation used was incomplete which led to the control being inadequate.

Document trails not maintained

Document trails—In 6 of 111 claims we examined, we were unable to assess how the Corporation determined certain amounts used to calculate the claim because the Corporation did not maintain adequate documentation in the applicant's file. Also for advance payments examined, we were unable to assess how the Corporation derived certain commodity prices used to calculate advance payments because the commodity prices used did not agree to the Corporation's price list.

Structural changes affect claims

Structural changes—The CAIS program is not to compensate participants for structural changes to their farming operation. A structural change is defined as a change in ownership, business structure, size of farm operation, farming practice, type of farming activity, accounting methods or any other practice that alters the margins or the potential profit of the farming operation. A structural change adjustment to the CAIS claim provides an even basis for comparing current year data to data from the past five-years. However, the Corporation may waive the structural change adjustment if the structural change was the result of a disaster. The decision to waive the structural change can move the participant from a non-claim position to a claim position.

Criteria not defined

The Corporation has not defined criteria for determining whether the participant has experienced a disaster. For three CAIS claims we examined, the Corporation waived the structural change adjustment due to drought or BSE. However, there was no documentation on file to support the conclusion that the structural change was due to a disaster and not other circumstances.

Criteria to identify "high risk" claims need to be developed

Identification of "high risk" applicants—Payments under the CAIS program are based on the information the participant supplies. The Corporation relies on the integrity of the information submitted to process the CAIS claim. The Corporation has developed internal verification procedures to validate the submitted information for accuracy and completeness. However, the Corporation has not established criteria to identify "high risk" CAIS claims that may need further verification, audit, or inspection of farm records.

Spreadsheets should be tested

Use of spreadsheets—Advance CAIS payments are calculated using Microsoft Excel spreadsheets. But the Corporation did not test the advance payment calculations in the spreadsheets before using them to calculate payments.

Implications and risks if recommendation not implemented

Inadequate controls over CAIS program payments increase the risk that the Corporation will not process payments accurately and in compliance with the program rules.

3.1.1.4 Testing of advance payment methodology

Recommendation

We recommend that, before making advance payments under the Canadian Agricultural Income Stabilization program, the Agriculture Financial Services Corporation thoroughly test its methodology for calculating the payments.

Background

In June 2004, the Corporation approved a plan under the Canadian Agricultural Income Stabilization (CAIS) program to pay to agricultural producers 50% of their estimated equity losses in their inventory—before they incurred any loss. The Corporation estimated a producer's equity loss based on two factors: the decrease in the current commodity prices compared to the 5-year averages and the producer's opening inventory for the 2004 CAIS claim year.

This methodology for calculating CAIS advance payments (advances) differs from the methodology for calculating final CAIS payments. The use of different methodologies increases the risk of overpayment. The Corporation overpays if the advance exceeds the final CAIS claim for the program year. The Corporation advanced $253 million in 2004–2005 for the 2004 CAIS program year. In its 2004–2005 financial statements, the Corporation estimates that it overpaid advances by $82.5 million.

The Corporation will identify actual overpayments in the fall and winter of 2005, when it processes producers' final CAIS claims for the 2004 program year. If CAIS overpayments exist, the Corporation will be required to collect them from producers.

Criteria: the standards we used for our audit

Before the Corporation makes advance payments under the CAIS program, it should thoroughly test its methodology for calculating the payments.

Our audit findings

Only limited testing of methodology before use

The Corporation did only limited testing of its methodology before making advance payments. It tested the methodology by using only one representative-size Alberta farm to calculate the equity loss advance and the final claim. This test showed the advance to the producer would exceed the final claim. However, in spite of this test result, the Corporation did no further testing to assess if the methodology appropriately reduced the risk of overpayments. We noted three significant reasons for the overpayments that the methodology did not consider.

Methodology assumed losses would be realized

First, the Corporation designed the equity loss advance based on the assumption that producers would sell their opening inventory in the year and realize the equity losses—that the losses would not be just on paper. The program requires producers to incur the equity loss in the current year for the Corporation to count the loss as an eligible expense when calculating the producer's final CAIS claim. The Corporation's risk of overpayment increases if the producer does not realize the equity loss in the same period as the advance.

Increase in cattle prices reduced losses

Second, cattle prices increased after the Corporation announced that equity loss advances were available. The Corporation paid the majority of the equity loss advances to producers that owned cattle. The increase in cattle prices reduced the likelihood that producers would realize an equity loss.

Additional government support program reduced losses

Third, after the Corporation paid the advances, the Governments of Canada and Alberta implemented a set-aside program for fed cattle and calves in the fall of 2004. This program gave producers additional eligible income for CAIS purposes. This income reduced a producer's final CAIS claim. The program also gave producers an incentive not to sell their calves and cattle—which meant that they would not realize an equity loss for CAIS purposes.

Implications and risks if recommendation not implemented

The Corporation may overpay advances if it does not test the calculation methodology before using it. The Corporation may also have difficulty recovering overpayments from producers if the producers have already spent the advance payments.

3.2 Canadian Farm Income Program compliance auditing

Unqualified auditor's reports

At the request of the Agriculture Financial Services Corporation, we audited the following schedules related to the Canadian Farm Income Program. Our unqualified auditor's reports were addressed to Agriculture and Agri-Food Canada.

- Administrative costs incurred and charged by the Corporation for the period ended March 31, 2004.
- Advances received under the program by the Corporation as at January 24, 2005.
- Program payments made to producers and advances received from the Government of Canada by the Corporation for the 2002 claim year.

Children's Services

Summary: what we found in our audits

Systems

The Ministry should improve systems and procedures in the following areas:

- Contract approvals—the Ministry needs to sign contracts with service providers before they provide services—see page 129.
- First Nation expense recoveries—the Ministry needs to improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve—see page 130.

Performance reporting

Our auditor's reports for the Ministry, Department and 10 Child and Family Services Authorities financial statements are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

The Ministry consists of the Department and 10 Child and Family Services Authorities (Authorities). The Department supports the Authorities, and co-ordinates provincial programs such as the *Prevention of Family Violence* program. The Authorities encompass the different regions of the province and deliver most of the Ministry's services.

The Ministry's 2004–2007 business plan describes three core businesses:

Three core businesses

- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

Ministry spent $760 million

In 2004–2005, the Ministry spent $760 million, of which the Authorities spent $559 million. The following programs are significant:

	(millions of dollars)
Child welfare	400
Service to children with disabilities	74
Family and community support	63
Child care	63
Program support services	47
Early intervention	29
Prevention of family violence	28

Ministry received $236 million

The Ministry had $236 million in revenue in 2004–2005; $196 million of this came in the form of the following transfers from the federal government:

	(millions of dollars)
Canada Social Transfer	164
Children Special Allowance	18
Service to On-Reserve Status Indians	14

For more details on the Ministry, visit its website at www.child.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendations to improve expense recoveries of First Nation costs, contract management systems, internal audit services, and Authorities' risk assessments.

2. Performance reporting

   We audited the financial statements of the Ministry, Department, and the following 10 Authorities for the year ended March 31, 2005:

   1. Southwest Alberta Child and Family Services Authority
   2. Southeast Alberta Child and Family Services Authority
   3. Calgary and Area Child and Family Services Authority
   4. Central Alberta Child and Family Services Authority
   5. East Central Alberta Child and Family Services Authority
   6. Edmonton and Area Child and Family Services Authority
   7. North Central Alberta Child and Family Services Authority
   8. Northwest Alberta Child and Family Services Authority
   9. Northeast Alberta Child and Family Services Authority
   10. Métis Settlements Child and Family Services Authority

We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Contract approvals

Recommendation No. 24

We recommend that the Ministry of Children's Services sign contracts (whether new or renewal) before contractors supply goods or services.

Background

Ministry has a large number of contracts to provide services

The Department and the 10 Child and Family Services Authorities (Authorities) annually enter into and manage contracts ($398 million for 2004–2005) so they can:

- deliver services to children and families such as group homes, residential treatment facilities and women's shelters.
- receive administration services such as information technology maintenance and operation, and consulting services.

Criteria: the standards we used for our audit

The Ministry should have legally enforceable contracts with its service providers that define the roles and responsibilities and deliverables of both parties before contractors supply goods or services.

Our audit findings

Contracts signed too late

During the financial statement audit, we found that the Department signed 8 out of 17 sampled contracts after the services started. The delay between the signing date of the contracts and effective dates of services ranged from one day to over three months, with an average of 39 days. The value of the individual contracts ranged up to $2.4 million.

We also reported this recommendation to 6 of the 10 Authorities. In total, 56 of 90 contracts we reviewed were signed either after the services started or after the previous contract ended, without an extension agreement signed for the period between the contract end date and the new signing date. The value of the individual contracts ranged up to $6.9 million. In one case, an Authority had not signed an agreement, valued at $563,000, with the service provider at May 31, 2005 to provide group home services to children from April 1, 2004 to March 31, 2005.

Implications and risks if recommendation not implemented

Ministry may be unable to enforce rights.

Without signed contracts, the Department and Authorities may be unable to enforce their rights because there is no legal document outlining the roles, responsibilities and deliverables of the contracting parties.

1.2 First Nation expense recoveries—unsatisfactory progress

Recommendation No. 25

We again recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve.

(*2001-2002*, No. 7)

Background

Department reimburses Authorities' for the on-reserve costs.

The Authorities sometimes deliver services to children and families ordinarily resident-on-reserve. The Department reimburses the Authorities for the costs of delivering these services, and then recovers these costs from Delegated First Nation Agencies (Agency) or the federal government.

In our *2001–2002 Annual Report* (No. 7—page 51), we recommended that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve.

Criteria: the standards we used for our audit

To recover costs, Ministry systems should:

1. identify resident-on-reserve costs
2. ensure that adequate information exists to recover costs
3. ensure that all conditions for billing third parties are met
4. reconcile payments made for resident-on-reserve costs to recoveries for them
5. investigate and pursue amounts not recovered

Our audit findings

Processes to recover costs still need improvement

The Ministry has not implemented adequate controls to ensure that it recovers all costs that the Authorities incurred from the Agencies or the federal government. We found that:

- the Department does not review whether invoices issued to the Agencies or federal government include all the costs that the Ministry incurred to deliver services to children and families ordinarily-on-reserve.
- the Department has not completed a detailed reconciliation to identify un-recovered costs.
- incompatible job duties are not properly segregated.

Last year, the Department developed draft billing procedures and protocols to clarify the billing procedures for administration costs to Agencies. However, the Department has not yet signed agreements with 11 of the 18 Agencies to allow the Department to recover all administration costs.

Implications and risks if recommendation not implemented

Inadequate cost recovery processes could prevent the Department from recovering all eligible costs from the federal government and Agencies.

1.3 Contract policy—satisfactory progress

Background

In our *2001–2002 Annual Report* (No. 8—page 53), we recommended that the Ministry strengthen the processes used to award and manage contracts. We found that the Ministry did not have adequate controls over potential conflicts of interest. The Ministry also had inadequate documentation on alternative service delivery methods, and inadequate contract monitoring. We repeated the recommendation in our *2002–2003 Annual Report* (page 69).

Our audit findings

New policy but still developing procedures and performance measures

The Ministry made satisfactory progress implementing the recommendation by approving a new contracting policy in April 2005 for the Department and Authorities. The Department is working with the Authorities to develop procedures based on the new policy. The Department has not reviewed all contract types to determine the appropriate outcome measures for the various contracted services.

We will review implementation next year

The Department and Authorities signed or renewed most of the existing contracts before the Department approved the new policy. Therefore, we will review the implementation of, and adherence to, the policy and procedures next year.

To finish implementing the recommendation the Ministry should:

- develop the outcome measurements to include in the contracts,
- develop and implement the contracting procedures, including procedures to monitor and evaluate contractors' performance,
- train staff on the use of the new policy and procedures, and
- implement a process to monitor compliance with the policy and procedures

1.4 Risk assessment of internal audit services—satisfactory progress

Background

Ministry risk management system needed

Last year (*2003–2004 Annual Report*, page 96), we recommended that the Ministry complete its risk assessment, and use this assessment to plan internal audit activities. The Ministry prepared a risk management framework dated March 31, 2003 and planned to complete its risks assessment by March 31, 2004.

Criteria: the standards we used for our audit

The Ministry should establish a formal risk management system to identify, assess and determine how to manage risks.

Our audit findings

Risk assessments on new legislation completed

The Department made satisfactory progress implementing the recommendation by completing a risk assessment to implement the new *Child, Youth and Family Enhancement Act* and the *Family Support for Disabilities Act*. The Department also completed a project risk assessment for new information systems. However, the Ministry has not incorporated these into its risk management framework. The Department and Authorities can use this framework to identify all significant risks and determine how they plan to manage the risks.

Ministry risk assessment needed

The Authorities have not completed risk assessments or established risk management systems. Authorities will complete these assessments when they receive the Ministry risk assessment.

To implement the recommendation, the Ministry needs to establish a formal risk management system to:

- do detailed risk assessments of the Ministry's programs to identify, prioritize, and agree actions required to manage risks.
- clearly define roles and responsibilities in the risk management plan.
- establish a reporting process to ensure that risk issues are raised at the appropriate levels and forums.
- allocate staff resources to participate in risk management activities.
- monitor high-level risks and update the risk assessment to address changing circumstances and risk profiles.

1.5 Prior-year recommendations

Below is a listing of past recommendations.

Year and reference	**Topic**
2000—No. 7	Program support services
2000—No. 9	Costing and results information
2002—Page 61	Availability of data for performance measures
2003—No. 5	Strategic Management Information
2003—No 6	Delegated First Nation Agency Accountability

As implementation of these recommendations was to occur over more than one year, they will be followed-up next year.

Community Development

Summary: what we found in our audits

Systems

The Wild Rose Foundation should determine whether to recover grants to the Applewood Park Community Association and improve its grant systems for the International Development Program—see page 137.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department and six provincial agencies were unqualified. We issued a qualified auditor's report on the financial statements of the Historic Resources Fund—see page 148.

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Three core businesses

The Ministry's 2005–2008 business plan identifies three core businesses:

- support individuals and organizations through community development
- protect human rights, promote fairness and access, and support the protection, inclusion, and participation of all Albertans
- preserve, protect and present Alberta's history, culture, provincial parks and protected areas

Ministry received $18 million

The Ministry received $18 million from sources external to government in 2004–2005.

Ministry spent $201 million

In 2004–2005, the Ministry spent $201 million, primarily as follows:

	(millions of dollars)
Community development	91
History and culture	54
Provincial parks and protected areas	41
Human rights, fairness and access	5

For more information on the Ministry, visit its website at www.cd.gov.ab.ca.

Scope: what we did in our audits

1. Systems

At the request of the Minister of Community Development, we audited the Wild Rose Foundation grants to Applewood Park Community Association and its grant system for the International Development Program.

We also followed up on the Ministry's progress implementing our previous recommendations.

2. Performance reporting

We audited the financial statements of the Ministry, Department, and the following seven provincial agencies for the year ended March 31, 2005:

- Alberta Foundation for the Arts
- Alberta Sport, Recreation, Parks and Wildlife Foundation
- Historic Resources Fund
- Human Rights, Citizenship and Multiculturalism Education Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Wild Rose Foundation

We completed specified auditing procedures on the performance measures in the Ministry's *2004–2005 Annual Report*.

Our audit findings and recommendations

1. Systems

1.1 The Wild Rose Foundation

Background

Wild Rose's responsibilities

The Wild Rose Foundation (Wild Rose) is governed by a seven-person Board of Directors, and it answers to the Minister of Community Development. Its primary roles are to:

- provide funding to volunteer, non-profit organizations that provide valuable services to Albertans.
- foster or promote the use of volunteers, or to assist those who volunteer or use the services of volunteers in Alberta.
- foster or promote charitable, philanthropic, humanitarian, or public spirited acts or to assist those who perform them.

International Development Program

Through its International Development Program (the Program), Wild Rose matches contributions by Albertans to fund projects that improve the social and economic conditions of the poor in developing countries.

The following table shows the grants Wild Rose has approved under the Program in the past three years:

Year	Total grants approved	Number of Organizations	Number of Projects	Number of Countries
2002-2003	$1,470,899	73	89	45
2003-2004	$1,660,858	86	107	50
2004-2005	$1,705,078	87	102	50

Applewood received $55,000

Between 2000 and 2004, Applewood Park Community Association (Applewood) applied for and received three grants from Wild Rose totalling $55,000 for charity projects in Vietnam:

- Grant #1–Flood Relief–$25,000 grant approved January 2000
- Grant #2–Homeless and Orphaned Relief Fund–$10,000 grant approved March 2002
- Grant #3–Water and Hope for those in Poverty–$20,000 approved February 2004

Two sections

We report our findings in two sections: our audit of Wild Rose grants to Applewood, and our audit of the systems that Wild Rose uses to issue grants under the Program.

1.1.1 Wild Rose grants to Applewood

Recommendation No. 26

We recommend that The Wild Rose Foundation review the results of our audit into the grants to Applewood Park Community Association and take appropriate action.

Background

Applewood Park Community Association is located in southeast Calgary and serves a community of approximately 5,200 residents, of which 600 residents report their country of birth to be Vietnam.[1]

Applewood worked with 2 groups to obtain funding from Wild Rose

There were two groups that Applewood worked with to obtain grant funding from Wild Rose. The Calgary Vietnamese Caodaist Cultural Society (the Society) was a not-for-profit society incorporated in 1998 that was struck from the Alberta corporate registry in 1999 for failure to file annual returns.

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[1] Statistics Canada, 2001 Census of Canada as reported by the City of Calgary, Community Strategies

Although struck from the corporate registry, we located and interviewed three of its members and found that it is still an active part of the Vietnamese community in Calgary. The Society holds two community dinners annually to raise money for charities in Vietnam. The Friends of Hue is an informal group of Calgary-based former residents of Vietnam who support charities in their former homeland.

Our approach

To complete our audit we:

- examined the grant applications and accountability reports submitted by Applewood to Wild Rose and interviewed Wild Rose staff about their review and approval of these documents.
- interviewed the Applewood Treasurer who applied for grants and examined Applewood's records to determine the validity of information provided to Wild Rose in support of the grants.
- interviewed representatives of the Society, The Friends of Hue, MLA for Calgary-Montrose, and other individuals involved in the fundraising and use of the grant funds to confirm the information on file and obtained from Applewood.

In conducting our audit of the Wild Rose grants to Applewood, we considered whether Applewood:

- was a properly constituted and eligible applicant for Wild Rose grants.
- prepared and submitted applications containing full and accurate information about the collection of donated funds to be matched by Wild Rose, as well as the intended use of donated grant funds.
- disbursed, collected and granted funds in a manner contemplated by the application and the Program requirements.
- submitted accountability reports to Wild Rose after receiving grant funds that were accurate, timely and sufficiently detailed to demonstrate that funds were disbursed in a manner contemplated by the application and Program requirements.

Our audit findings

Can't conclude if Grant #3 distributed in accordance with requirements

The results of our audit of the three Applewood grants are summarized below. Based on our audit, we can conclude there is a reasonable likelihood, but not absolute certainty, that all funds for Grants #1 and #2 reached the intended charity in Vietnam. For Grant #3, we cannot conclude if the funds were in fact transferred to Vietnam as contemplated in the application and we cannot verify the validity of the receipts provided in the accountability report. Accordingly, we cannot conclude if they were distributed in accordance with the Program requirements. Applications for all grants contained false information about the source of Applewood's funds and the groups actually conducting the fundraising. All accountability reports contained documents in Vietnamese that were not translated, as well as vague and conflicting information.

Given the results of our audit, Wild Rose needs to examine whether action should be taken under its regulation to recover the grants provided to Applewood.

Applewood was eligible

Eligibility for Program grants—Applewood was eligible to receive funding from the Program. Applewood is a registered non-government organization and had board authorization to carry out fundraising and obtain grants for local and international purposes. All three grant requests were for international charity projects.

Applewood submitted applications on behalf of 2 ineligible groups

Applewood submitted the grant applications on behalf of two groups: the Society and The Friends of Hue. These groups were looking for ways to access government grants for their charity work in Vietnam. The MLA for Calgary-Montrose referred these groups to Applewood because he believed they would not be successful with their own grant applications, and pairing them with Applewood would be a good way to build the community. Applewood also wanted to do charitable work to prove to the federal government that they qualified to be a registered charity eligible to issue receipts for income tax purposes. We saw no evidence of financial benefit to Applewood as a result of processing these grants. Members of both groups told us that they felt unable to apply on their own behalf due to organizational and language challenges and welcomed the assistance from Applewood. These groups would not have been eligible for Wild Rose grants on their own because they were not registered organizations.

Applewood provided false information on source of matching funds

Application for grant funding—Applewood's application included all the required information; however, the applications included false information about the source of matching funds and the identity of the groups seeking the funding. In all three grant applications, Applewood signed an application verification statement that all the information in the application was accurate and a declaration that they had raised the matching funds. Applewood did not disclose the involvement of the Society or The Friends of Hue, who were the fundraisers of the matching funds and were responsible for completing the projects.

No evidence of preferential treatment

A letter from the MLA for Calgary-Montrose supported the grant applications for the first and second grants, and his office staff helped prepare the grant applications. However, we found no evidence that these applications received preferential treatment from Wild Rose because of the MLA's involvement.

Applewood not involved with projects

Disbursement of grant funds—Applewood flowed all matching and grant funds through their financial records but was not involved in any way with the execution of any projects. Applewood submitted accountability reports to Wild Rose with the information received from the groups. The Treasurer of Applewood did not validate the information in the reports.

Reports vague and conflicting

Accountability report—The accountability reports were late and contained vague and conflicting information and, in the case of the third grant, funds were spent on projects not identified in the grant application. All three accountability reports contain documents in Vietnamese. We translated these documents and found inconsistencies in dates, recipients and amounts.

Source and use of funds—We obtained the following information on the source and use of the funds for each project:

- Grant #1—Applewood obtained $25,000 from Wild Rose and the additional $15,330 in funds was raised by the Society and The Friends of Hue for the project. The accountability report documentation, which consist of letters of gratitude and bank transfers; indicates that $28,330 was provided by bank transfer to the founder of the Duc-Son Orphanage and $12,000 was carried by a Society member to Vietnam and provided to the Duc-Son Orphanage. The orphanage is well known and respected in Vietnam, and the founder is a nun of some international acclaim due to the work she has done with Vietnamese orphans.

Likely that Grant #1 went to orphanage

Approximately $5,700 of the total project funds were provided to the orphanage before submission of the grant application and $3,600 was provided before approval of the Wild Rose grant. Applewood did not inform Wild Rose of the distribution of funds before the grant, although this would not have prevented them from receiving a grant. We spoke to the founder of the orphanage and she remembers receiving approximately $30,000 in funds over three years from 1999 to 2002 but all the records were lost in a flood and she was unable to give us direct evidence that all funds went to the orphanage. However, given the Western Union documentation and supporting letters of gratitude, there is a reasonable likelihood that the funds were received by the orphanage.

Sources	$	Uses	$
Society	6,000	Society Representative provided directly to the Duc-Son Orphanage (letters of gratitude)	12,000
The Friends of Hue	9,235	Western Union transfers to Founder of Duc-Son Orphanage	28,330
Wild Rose	25,000		
Unknown contribution	95		
Totals	**40,330**		**40,330**

Likely that Grant #2 went to orphanage

- Grant #2—Applewood obtained $10,000 from Wild Rose and the $10,000 in matching funds were raised by The Friends of Hue. The accountability report documentation indicates that the grant funds of $20,000, net of bank transfer fees, went to the Duc-Son Orphanage. As noted above the founder of the orphanage could not provide documentation to confirm this. However, given the bank documentation, there is a reasonable likelihood that the funds were received by the orphanage.

Sources	$	Uses	$
The Friends of Hue	10,000	Transferred to Viet Com Bank, and subsequently to Founder of Duc-Son orphanage	19,989
Wild Rose	10,000	Viet Com Bank	11
Unknown	45	Royal Bank	45
Totals	**20,045**		**20,045**

Can't conclude on how Grant #3 was spent

- Grant #3—Applewood obtained $20,000 from Wild Rose and the $20,000 in matching funds were raised by the Society. Contrary to its intentions as stated in the application, Applewood gave all funds (donation plus matching grant) back to the Society for distribution. We were told that the Society gave funds to two individuals that transferred the funds through personal bank accounts to Vietnam but we could not obtain evidence to confirm this. The accountability report includes receipts for medical care, shelter for the homeless, Caodaist temples, charity work and water wells amounting to $34,110 of the $40,000 in total project funds. However, there is no way to verify that the receipts are valid and the recipients received the funds. There are no receipts supporting the use of the remaining $5,890 of the funds. Also, the receipts indicate that the funds were used for purposes that were not included in the project budget.

Sources	$	Budget Purpose	Budget $	Uses	$
Society	20,000	Care of the sick	1,000	38 pre-printed receipts from individuals and agencies for medical care, shelter for homeless, Caodaist temples, water wells and 3 letters of gratitude that cannot be verified	34,110
Wild Rose	20,000	Medicine and food	3,000		
		Water wells	36,000	No receipts	5,890
Totals	**40,000**		**40,000**		**40,000**

1.1.2 The Wild Rose Foundation's systems for the International Development Program

Recommendation

We recommend that The Wild Rose Foundation improve its grant systems for the International Development Program by:

- **obtaining third party evidence that matching funds exist before approving grants,**
- **enhancing the review of accountability reports, and**
- **establishing a way to obtain assurance that grant funds are used as intended.**

Background

Recent changes to the Program eligibility criteria

Organizations are eligible for Program grants if they are a registered non-government organization and fundraise for charitable purposes. Wild Rose has made recent changes to the Program that also requires organizations to demonstrate that they are primarily focused on international charity projects to be eligible for grants.

Program requirements

Wild Rose sets out the Program requirements in the application form. This form requires that applicants provide the following information:

- incorporation documents and by-laws
- project purpose and budget
- outcome measures and project objectives
- identification of overseas partners
- financial statements for the applicant organization
- signed verification by applicant organization officers that the information in the application is true and a declaration that the organization has raised the matching funds.

Wild Rose's grant review and approval process takes place in three phases.

- Wild Rose ensures the applicant organization is registered and not on their ineligible-to-apply list.
- The Program coordinator evaluates applications to assess risk, financial factors and pertinent elements of the project.
- The Program coordinator submits a recommendation to approve, partially approve, or reject the application to the Wild Rose Board.

Accountability report requirements

All grant recipients must submit an accountability report providing evidence that they spent funds in accordance with the intended purposes and the Program requirements. The accountability report must include:

- project information relative to performance measures and objectives stated in the application
- financial information including bank transfers and receipts
- signed declaration by applicant organization officers that the information submitted is true
- letters of thanks, photos, videos, copies of organization newsletters (if applicable)

Wild Rose reviews the accountability reports of applicants to assess their performance. Wild Rose follows up incomplete and poor quality accountability reports. For ongoing projects, Wild Rose provides concurrent grants on completion of the previous phase, including their approval of the accountability report. This ensures periodic review of organization activities. Wild Rose assesses one-time grants on completion.

Under the Wild Rose Foundation Regulation, Wild Rose may require the recipient of a grant to repay all or part of the grant funds if the recipient does not comply with the terms and conditions of the grant or if the information in the application is false, misleading or inaccurate.

Wild Rose has the ability to examine how the recipients have used grant funds. The agreements with grant recipients also allow Wild Rose to access records to obtain assurance that the recipient has used grant funds appropriately.

Criteria: the standards we used for our audit

Wild Rose should have systems in place to ensure that grant funds are used appropriately. Wild Rose should:

1. communicate the availability of grants to all potential applicants.
2. set the Program eligibility criteria and requirements.

3. have a clearly established review and approval process with appropriate approval levels for the financial commitment or risk levels of proposed grants.
4. have clearly defined reporting requirements for grant recipients.
5. periodically assess the performance of grant recipients against Program objectives and time schedules.
6. establish a process to remedy the failure of grant recipients to meet objectives or Program guidelines.
7. include a review requirement in its grant agreements and perform periodic reviews to obtain assurance that funds were used as intended.

Our audit findings

Wild Rose's systems for issuing grants under the Program met criteria 1, 3, 4 and 6 and partly met criteria 2, 5 and 7.

Communicating the availability of grants—met

Information on the Program is available on the Ministry of Community Development website and in MLA constituency offices.

Setting eligibility criteria and Program requirements—partly met

No third party evidence required to confirm matching funds

Wild Rose requires an applicant to meet the Program eligibility criteria and provide a complete application, which includes supporting financial information and declarations, before they are eligible for Program funding. However, Wild Rose does not require applicants to provide third party evidence of the matching funds; therefore, they may not be able to verify that the information on the applicant's financial condition or fundraising activities is accurate. Requesting a bank statement showing that matching funds existed at the time of the application would assure Wild Rose that fundraising occurred and the organization is financially able to fulfill its commitment.

Applications met eligibility and program requirements

All ten applications we reviewed met the eligibility criteria that existed at the time the application was made. All the applications were complete and included required information and declarations. However, if the new eligibility criterion was in place when Applewood applied for grants Wild Rose may not have considered Applewood an eligible organization because their primary function is not international charity work. In addition, if Applewood would have been required to provide third party evidence to support the existence of matching funds, Wild Rose would have been able to identify that Applewood did not have the matching funds for Grant #1 and that the application and declarations were false.

An established review and approval process—met

Proper reviews and approvals of

All approved applications we examined were complete and Wild Rose applications

followed the proper approval process. In the case of the Applewood grants, we learned that the information provided about the source of funds was untrue, even though the application included a signed declaration and application verification.

Reporting requirements for grant recipients—met

Clearly defined requirements

Wild Rose has clearly defined the reporting requirements for grant recipients. All grant recipients must submit an accountability report providing evidence that they have achieved the project results set out in the application and a declaration. Wild Rose relies on this report to provide assurance that the funds were spent in accordance with the intended purposes and the Program requirements. Applicants are also required to return any unused funds with the accountability report.

Wild Rose sent reminders to Applewood to send accountability reports that were not submitted by the required date. All other reports that we examined were submitted before their due date.

Assessment of grant recipient performance—partly met

6 accountability reports contained required information; one was missing receipts

In reviewing accountability reports, Wild Rose relies on the applicants' integrity and the declaration form. We examined seven accountability reports from organizations other than Applewood and found that Wild Rose staff had reviewed the reports. The accountability reports contained the required information with the exception of one, which showed expenditures not matching the total grant amount (total grant was $12,500 and the report included $4,000 in receipts). We were unable to obtain an explanation for this difference.

Applewood reports

All three Applewood accountability reports contained the required information; and there was evidence that Wild Rose had reviewed the reports. However, they contained documents in Vietnamese that were not translated. When we examined the accountability reports and supporting documentation, we found the following:

Letters not translated

- Grant #1—Wild Rose staff found this accountability report "very basic" but complete enough to accept. Through our examination of wire transfers and translation of documents, we identified that Applewood had made expenditures before the grant was approved. The report contains bank transfers that support the transfer of $28,330 in funds to the founder of the orphanage. The letters of gratitude received from the orphanage are in Vietnamese and not translated. This information was necessary to confirm the use of $12,000 in grant funds.

Letters not translated

- Grant #2—the accountability report is complete, but does not contain the promotional material referred to in the report. The report contains bank transfers that support the transfer of funds to the founder of the orphanage. The letters of gratitude received from the orphanage are in Vietnamese and not translated. This information was necessary to confirm the use of the grant funds.

Unacceptable report

- Grant #3—the accountability report did not include complete information to support the use of the grant funds. Wild Rose was not satisfied with the accountability report and they are waiting for the results of our audit before taking further action.

Wild Rose relies on its "ineligible-to-apply list" as the main indication of an organization's history. Therefore, it is important that the review of each accountability report be rigorous.

Wild Rose needs to verify information in reports

Wild Rose's examination of the reports should include:
- verifying that the project information and results are consistent with the project application and include results related to measures and objectives in the application
- verifying that project financial information is supported by accurate and complete documentation i.e. bank transfers and receipts
- the follow-up of all questions arising from the review of the report and supporting documentation, including evidence of the results of the follow-up with the organization.

Wild Rose should ensure that the information in the report is complete, funds are accounted for, and all of its questions on the accountability report are answered and reflect the project applied for.

Wild Rose can recover funds

Process for failure to meet objectives—met
If a group does not submit an accountability report, Wild Rose requires the organization to return the funds and places it on its ineligible-to-apply list. Wild Rose uses the Crown Collection Agency to seek return of amounts over $10,000. For amounts under $10,000, Wild Rose staff follows up with the applicant and if not successful, treats the funds as unrecoverable. Wild Rose staff advised us that this situation does not occur frequently but has in the past.

No process to obtain third party assurance that grant funds

Conducting reviews of funds use—partly met
Wild Rose relies on the integrity of applicants and the declaration of their officers that they have used the funds in accordance with the Program. Wild Rose has the ability to examine how the recipients have used grant funds. The

were used appropriately

agreements with grant recipients also allow Wild Rose to access records to obtain assurance that the recipient has used grant funds appropriately. However, Wild Rose has no process to obtain third party verification of the use of grant funds such as a formal agreement with Canadian International Development Agency or other organizations to inspect or inquire as to the completion of projects.

Implications and risks if recommendation not implemented

Without a strong system to review grant applications for compliance with Program requirements and effective monitoring and enforcement systems to ensure funds are disbursed in accordance with requirements, there is a risk that:

- Ineligible people or organizations may obtain grant funds
- Grant funds may be obtained fraudulently or not used for purposes consistent with the Program's objectives
- The integrity of the Program and Wild Rose may be questioned if grants are used for improper or illegal purposes.

1.2 Management of parks and protected areas

1.2.1 Service delivery alternatives—implemented

Background

2003 recommendation to evaluate effectiveness

The Ministry of Community Development's Parks and Protected Areas Division contracts out the management of approximately half of the provincial parks and recreation areas to private operators through facility operating agreements. In our *2002–2003 Annual Report* (No. 8—page 80), we recommended that the Ministry evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas.

Our audit findings

Cost-benefit templates used to evaluate service delivery alternatives

The Ministry implemented this recommendation by using a cost-benefit analysis template to evaluate service delivery alternatives. The template establishes criteria, including past performance information, for evaluating each alternative. We selected four recently tendered sites and found that the Ministry used the template in all cases and made decisions based on the analysis.

The Ministry has also developed and is implementing a plan to deal with the deferred and ongoing maintenance costs for parks sites over the next 10 years.

1.2.2. Selecting and monitoring contractors—satisfactory progress

Background

In our *2002–2003 Annual Report* (page 81) we recommended that the

Ministry improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance.

Our audit findings

The Ministry continues to make satisfactory progress implementing this recommendation.

Guidelines for selecting operators

The Ministry has guidelines in place for using requests for proposals and open competition, and selecting operators based on the quality of the proposals. We examined the files of 17 park sites from the seven regions and were satisfied that staff was following this guidance.

Information to monitor performance

Parks and Protected Areas staff has been working with the area offices to ensure they obtain adequate documentation to properly monitor operators' performance. The Ministry has developed checklists indicating what documentation is to be obtained from parks operators and we are satisfied that the information is sufficient to monitor performance.

Limited evidence of review performed

However, we examined the files of 17 park sites and found that some files did not include all the required information, such as visitor statistics, monthly revenue and annual expense reports, and inspection reports. In addition, there was limited evidence of review and analysis of the documentation that was obtained.

Consistent compliance needed

To finish implementing this recommendation, the Ministry needs to have a system to ensure staff consistently complies with the guidelines for collecting and analyzing information from operators.

2. Performance reporting

2.1 Financial statements—Reservation of opinion

Some operations not recorded in Fund financial statements

The Historic Resources Fund has not properly recorded in its financial statements the revenues, expenses and surpluses generated by the operation of government-owned facilities. As a result, we estimate that for 2005, the Fund's liabilities are overstated by $197,000, assets are understated by $90,000, and the fund balance is understated by $287,000.

2.2 Excluded operations—satisfactory progress

Background

2001–02 recommendation

In our *2001–2002 Annual Report* (No. 11—page 68) and our *2002–2003 Annual Report* (No. 9—page 28), we recommended that the Ministry record in its financial statements all revenues, expenses, and surpluses generated through the operation of the Northern Alberta Jubilee Auditorium and the Southern Alberta Jubilee Auditorium.

Our audit findings

Ministry to record excluded operations in 2005-06

The Ministry is making satisfactory progress implementing this recommendation. On April 1, 2005, the Ministry started recording the revenues, expenses and surpluses of the operations of the auditoriums and will include these amounts in its 2005–2006 financial statements.

Economic Development

Summary: what we found in our audits

Performance Reporting

Our auditor's report for the Ministry's financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Three core businesses

The Ministry's 2004–2007 business plan describes three core businesses:

- strategic economic leadership and business intelligence
- industry and regional development, trade promotion and investment attraction
- tourism marketing and development

Ministry spent $58 million

In 2004–2005, the Ministry spent $58 million. The following programs are the largest costs of the Ministry:

	(millions of dollars)
Tourism marketing and development	24
Industry and regional development, trade and investment	23

For more detail on the Ministry, visit its website at www.alberta-canada.com./aed.

Scope: what we did in our audits

1. Systems

1.1 Grant management process

We reviewed the Ministry's grant management process by examining a sample of six grants. One of these samples was a one-time $1.25 million grant for a transportation feasibility study.

1.2 Managing for results

We followed up recommendations from our *2002–2003 Annual Report* that the Ministry improve its Managing for Results systems.

2. Performance reporting

We audited the financial statements of the Ministry for year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Grant management process—no recommendation

Background

Grants support Ministry goals

To achieve its business goals, the Ministry awards grants and enters into contracts with key partners such as industry associations and private sector firms. It also supports regional alliances that represent municipalities in the regions of the Province. The *Government Organization Act* and *Economic Development Grant Regulation* authorize the Ministry to issue grants. The Ministry has established a grant management process. As part of this process, the Ministry enters into agreements with grant recipients to set the terms and conditions of grants.

Two types of grants

The Ministry receives grant applications from a range of potential grant recipients identified by its sector teams and its government and business contacts, as well as by its intelligence databases. The Ministry awards two types of grants:

1. **Recurring grants**—annually renewable grants to recipients such as the 12 Regional Economic Development Alliances.
2. **Non-recurring grants**—one-time grants whose applications are reviewed by the Ministry staff on a case-by-case basis using established criteria.

For fiscal 2004–2005, the Ministry awarded $9.6 million in grants consisting of 33 recurring grants (for $3.7 million) and 93 non-recurring grants (for $5.9 million).

Grant management process audited

We audited the Ministry's grant management process. One of the six grants examined was a non-recurring, $1.25 million grant to the Athabasca Oil Sands Transportation Corporation. This grant was to be used to conduct a feasibility study on integrating rail and road transportation from Nisku-Edmonton to Fort McMurray and oil sands plants. The grant represented half the estimated cost of the study. An industry-funded business case supported the grant application.

Criteria: the standards we used for our audit

The Ministry's grant management process should ensure that:

- a sound control environment exists to support the effectiveness of grant management,
- staff properly review grant applications and ensure they meet regulatory requirements before approving grants, and
- staff monitor the grant recipient's use of grant funds for compliance with the terms and conditions of the grant agreements.

Our audit findings

Criteria met

The Ministry met the criteria and we have no recommendation. With respect to the Athabasca Oil Sands Corporation grant, we found that:

- the Ministry recorded the payment as a grant. We assessed this transaction and confirmed that it met the criteria for a grant;
- Ministry staff treated the grant in a manner consistent with their treatment of similar grants;
- the grant application was supported by an industry-funded business case demonstrating the need for a more detailed feasibility study;
- Ministry's due diligence process was followed in reviewing the grant application, approving the grant, and monitoring the use of grant funds for compliance with the agreement and Ministry policy.

1.2 Managing for results—satisfactory progress

Background

In our *2002–2003 Annual Report*, we made five recommendations to help the Ministry improve its systems to "manage for results." Last year, the Ministry implemented one recommendation. This year, we reviewed the status on two recommendations and concluded that the Ministry needs more time to implement the following:

- Defining results in the business plan and assessing Ministry contribution to results (*2003–2004 Annual Report*, page 118), and
- Development and review of performance information (*2003–2004 Annual Report*, page 120).

Follow up next year

Next year, we will follow up the implementation of the outstanding recommendations.

Our audit findings

Internal planning—satisfactory progress

On page 90 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development streamline its operational planning process and improve guidance on operational plans to divisions and branches.

Steps to improve planning and guidance

The Ministry made satisfactory progress. To streamline operational planning and improve guidance to divisions and branches, senior management explained planning requirements to staff. In addition, the Ministry:

- issued instructions, templates, and standard forms to staff;
- developed internal plans with the staff responsible for implementing the plans;
- delegated the implementation of each goal to a project manager; and
- ensured that all levels of Ministry staff participated in the planning process.

Follow up next year

The Ministry is completing its performance measurement framework and performance indicators for its functional areas. In 2006, we will follow up the status of this recommendation.

Human resource management processes—implemented

On page 91 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development evaluate the implementation of its performance management system to improve adherence to Ministry program guidelines.

Recommendation implemented

The Ministry implemented the recommendation. The Ministry developed a checklist based on the program guidelines and evaluated the effectiveness of its performance management system. The Ministry analyzed information from this review, found that employees needed additional feedback during performance reviews, validated these results with employees, and then developed an action plan.

The Ministry hired a consultant to implement a coaching skills program for supervisory staff. Human resource staff plans to continue reviewing staff assessments to ensure that comments on employee performances are noted on the assessments and timely feedback is provided to supervisors and branch heads.

Education

Summary: what we found in our audits

Systems

The Department should implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings—see page 157.

Performance reporting

Unqualified Auditor's Reports

Our auditor's reports on the Ministry, Department and the Alberta School Foundation Fund financial statements are unqualified.

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity—see page 159.

No exceptions

We found no exceptions when we applied specified auditing procedures in 2004 on the Ministry's performance measures. Our work in 2005 on the Ministry performance measures is in progress.

Other entities that report to the Minister

- Performance reporting—Northland School Division
  We issued an unqualified opinion on the financial statements of Northland School Division No. 61.

- Performance reporting—school jurisdictions
  We noted internal control weaknesses and financial statement reporting issues when we reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings of the 75 school jurisdictions and charter schools—see page 159.

Overview of the Ministry

The Ministry was established as a result of the restructuring of government ministries announced on November 24, 2004. The Ministry's 2004-2007 business plan describes three core businesses:

- support the learning system: lead, promote and support excellence in the learning system.
- support the learner: provide opportunities for learner success

- support the Ministry to ensure excellence of the learning system

In 2004–2005, the Ministry spent approximately $4 billion. The largest expenses are:

	(millions of dollars)
Operating support to public and separate schools	3,190
Teachers' pensions	443
Provincial initiatives and other programs	206
Accredited private school support	123

The Ministry's revenue was approximately $1.3 billion in 2004–2005. The primary source of revenue is school property taxes ($1.2 billion).

For more information on the Ministry, visit its website at http://www.education.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

We examined the Department's system for evaluating savings generated for the Learning sector through purchases of textbooks by the Learning Resource Centre.

We followed up on our previous recommendations.

2. Performance reporting

We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

We performed the following work on entities that report to the Minister:

- We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2004.
- We reviewed, under section 19(4) of the Auditor General Act, the audited financial statements and audit findings for the 75 school jurisdictions and charter schools for the year ended August 31, 2004.

Our audit findings and recommendations

1. Systems

Purchase of textbooks

Recommendation No. 27

We recommend that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings.

Background

The Learning Resources Centre (the Centre) of the Department of Education purchases textbooks and other resources in bulk for sale to schools. In 2005, the Centre began to also supply books to schools jurisdictions in British Columbia. The Centre sold $20.3 million of learning materials to school jurisdictions in Alberta, and $5.7 million in British Columbia.

The Centre charges the same price throughout Alberta, including shipping. As a result resources are available to all Alberta school jurisdictions at the same cost regardless of size or location. The Centre establishes its mark-up rates to recover its overhead costs. While the Department believes it is important to achieve savings for schools, it does not consider this the sole measure of success for the Centre.

The Department annually provides school jurisdictions with a 25% credit for purchases through the Centre.

Criteria: the standards we used for our audit

Periodically the Department should evaluate the savings provided to the learning sector by the Centre.

Our audit findings

With the 25% credit to school jurisdictions, it is less expensive for school jurisdictions to order through the Centre than ordering directly from the supplier.

The Department does not evaluate the net savings generated by the Centre

The Department does not evaluate the savings generated to the Department and school jurisdictions from using the Centre as opposed to having the school jurisdictions purchase directly and providing grants to adjust for volume and shipping differences.

The Department has undertaken some initiatives to create savings

The Department has implemented some initiatives to create savings for the learning sector. The Centre negotiated an additional 5% discount for schools under an early order discount program. Also, by entering into an agreement to supply books to British Columbia, the Centre has reduced its mark-up rate to Alberta school jurisdictions by 1%.

The British Columbia Ministry of Education pays the incremental cost between the Alberta shipping rates and the cost of shipping to British Columbia. As a result there is no increased cost to Alberta school jurisdictions.

The public post secondary institutions do not purchase textbooks through the Centre but use some of the same suppliers as the Centre.

Opportunities exist for further savings

There may be opportunities for further savings. The Department should consider whether:

- savings could be generated by having some large purchases shipped directly from the supplier to the school jurisdiction as opposed to being first shipped to the Centre and then to the school jurisdiction
- there could be further savings for the Department, school jurisdictions and public post secondary institutions if the public post secondary institutions also purchased textbooks through the Centre
- there could be further savings negotiated with publishers as a result of the Centre's expanded role and sales volume from selling books to British Columbia schools.

Implications and risks if recommendation not implemented

The Department may miss opportunities to achieve further savings in the learning sector.

1.1 Risk management—satisfactory progress

Background

Satisfactory Progress

In our *2001–2002 Annual Report* (No. 36—page 192), we recommended that the Department of Education (formerly Learning) establish a risk management process to improve the effectiveness of its control and monitoring activities. This was a continuation of a recommendation first made in 1999.

Our audit findings

In 2005 the Department developed a definition of risk and a plan for managing risk.

For this recommendation to be considered implemented, we will need to see evidence of:

- the plan being implemented.
- a process being implemented to evaluate the effectiveness of risk strategies.

1.2 Monitoring of the Career Technology Studies Program—implemented

Background

Implemented

In our *2000–2001 Annual Report* (No. 30—page 191), we recommended that the Department of Learning improve its systems to ensure that school jurisdictions are complying with the requirements of the Career Technology Studies (CTS) program.

In 2001 we had noted that funding had been provided for CTS courses where:

- student performance was not being assessed appropriately
- required access to instruction may have not been provided
- duplicate payments occurred

Our audit findings

The recommendation has been implemented as the Department now has processes in place to detect the deficiencies noted in 2001.

2. Performance reporting

2.1 Financial statements

Unqualified opinion

Our auditor's report on the Ministry, Department, and Alberta School Foundation Fund financial statements are unqualified.

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity. Our estimate of the effect on the Ministry's financial statements of expanding its reporting entity would be to increase assets by $3.7 billion and liabilities by $1 billion.

We had no exceptions on the specified auditing procedures report on the Ministry's performance measures.

2.2 Performance measures

We had no exceptions on the specified auditing procedures report provided in 2004 on the Ministry's performance measures. Our work in 2005 on the Ministry performance measures is in progress.

3. Other entities that report to the Minister

3.1 Review of school jurisdictions' financial reporting

Background

We audit one of the school jurisdictions. For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors communicate any findings to management if weaknesses come to their attention when auditing the financial statements. We also review the auditors' report sent to each school jurisdiction and charter school.

Our audit findings

Auditors' Opinions—Of the 75 (72 in 2003) school jurisdictions and charter schools, two (one in 2003) received a qualified auditor's report for the year ended August 31, 2004. The reports were qualified because the auditors were unable to verify the completeness of revenue from school generated funds.

Three auditors financial statements prepared on a disclosed basis

Three auditors (none in 2003) reported that the financial statements had been prepared on a disclosed basis of accounting instead of on a basis consistent with generally accepted accounting principles. They also indicated that the statements were prepared solely for the use of the jurisdiction's board and management and reporting to Alberta Education and should not be used by anyone other than the specified users for any other purpose. Having such a report creates difficulties for Alberta Education as school jurisdictions' financial statements are published in Alberta Education's annual report, tabled in the Legislative Assembly and are posted on the internet for the use of many other users than the ones specified in these auditors' reports.

Alberta Education has since clarified in its 2005 guidance to school jurisdictions and auditors that the financial statements in the format prescribed by Alberta Education are intended to be general purpose financial statements prepared in accordance with generally accepted accounting principles. They also note that auditors should provide a standard auditor's report indicating whether the financial statements present fairly in accordance with generally accepted accounting principles. If the auditors have identified material differences or presentation issues, they should qualify their report. Alberta Education has also clarified the sample financial statement notes indicated in the guidance. We will continue to follow up and report on the resolution of this issue in my *2006 Annual Report*.

Management letters—the following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2004:

School-generated funds—22 school jurisdictions (17 in 2003) need to improve controls over the processes used to collect, record and report school-generated funds.

Payroll and personnel management—18 jurisdictions (13 in 2003) need to improve controls over accuracy, completeness, proper recording, and access to payroll information.

Capital assets—Seven jurisdictions (six in 2003) need to improve the recording of capital assets.

Purchases—11 jurisdictions (18 in 2003) need to improve controls over the purchase cycle such as implementation of review and authorization processes over purchases and payments, retention of supporting documentation, and following the established policy of tendering for major purchases.

Timeliness of financial recording—nine jurisdictions (16 in 2003) need to ensure bank reconciliations and related correcting entries, payroll reconciliations, accounting transactions, purchase orders and monthly financial statements are prepared or recorded on a regular and timely basis.

Computer security—nine jurisdictions (12 in 2003) need to improve computer security including the implementation of access control, physical security controls, and environmental controls; segregation of incompatible functions; development of disaster recovery and business continuity plans; implementation of data back up and restoration procedures; development of comprehensive security policy and computer application policy manual; and the use of offsite storage.

Segregation of duties—four jurisdictions (six in 2003) need to have segregation of duties over authorization and recording of transactions and custody of and accounting for certain assets.

Policies and procedures—13 jurisdictions (12 in 2003) need to update or implement formal procedures and policies.

Accounting issues—eight jurisdictions (two in 2003) need to address accounting issues such as assessing valuation of long term investments, determining fair values of contributed materials, following accounting policies relating to capitalization and amortization as disclosed in the financial statements.

Review of financial information—16 jurisdictions (17 in 2003) need to review: bank reconciliations, journal entries, and variances between budget and actual expenditures.

Cash management—ten jurisdictions (nine in 2003) need to improve cash management processes and controls.

Board approval—two jurisdictions (three in 2003) need to ensure that the board approvals are obtained for matters such as board minutes; decisions such as transfer of reserves and the use of unrestricted surpluses; revised budgets and unbudgeted expenditures.

Goods and Services Tax—three jurisdictions (three in 2003) need to review their taxable sales regularly to determine if there is a need to collect and remit GST, ensure GST calculations are reviewed to ensure accuracy, and file GST returns on a timely basis.

School deficits—seven jurisdictions (two in 2003) need to improve their budgetary processes to prevent or eliminate deficits at some schools.

The Department contacts all jurisdictions and encourages them to address the issues raised in the management letters.

Energy

Summary: what we found in our audits

Systems

The Department should:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data—see page 165.
- communicate to the Alberta Energy and Utilities Board (EUB) how much assurance, if any, the Department needs over the completeness and accuracy of well and production data—see page 165.

The EUB also needs complete and accurate production volume data—see Other entities that report to the Minister.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—Alberta Energy and Utilities Board (EUB)

  EUB should:
  - explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards—see page 169
  - improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling—see page 173

- Performance reporting

  Financial Statements

  Our auditor's reports on the financial statements of EUB and the Alberta Petroleum and Marketing Commission (the Commission) are unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department of Energy, EUB and the Commission.

Six core businesses

The Ministry's 2004–2007 business plan identifies six core businesses:
- secure Albertans' share and benefits from energy and mineral resource development
- ensure Alberta's energy and mineral resources remain competitive and attractive to investment and development
- inform Albertans about energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy
- ensure Alberta consumers have a choice of reliable and competitively priced energy
- adjudicate and regulate matters related to energy and utilities within Alberta to ensure that the development, transportation, and monitoring of energy resources are in the overall public interest
- ensure the collection, storage, analysis, appraisal, and dissemination of information and the knowledge associated with it.

Ministry received $10.1 billion

The Ministry collected $10.1 billion in revenue in 2004–2005, from the following sources:

	(millions of dollars)
Non-renewable resource revenue	9,744
Freehold mineral rights tax	306
Industry levies and licenses	74
Other revenue	24

Ministry spent $192 million

The Ministry spent $192 million in 2004–2005.

For more details on the Ministry, visit its website at www.energy.gov.ab.ca.

Scope: what we did in our audits

1. Systems

We followed up our previous recommendations.

2. Performance reporting

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2005. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

3. Other entities that report to the Minister

We audited EUB's systems for ensuring the accuracy and completeness of oil and gas volumetric data submitted by industry.

We audited EUB's processes for ensuring the oil and gas industry is responsible for the costs of suspension, abandonment and reclamation for the wells, facilities and pipelines that EUB regulates.

We audited the financial statements of the Commission for the year ended December 31, 2004. We also audited EUB financial statements for the year ended March 31, 2005.

Our audit findings and recommendations

Guidance to reader

The Department and EUB both require complete and accurate oil and natural gas production volumes to achieve their respective mandates. Industry is required to file volumetric data each month with the Department and EUB. The Department, EUB and industry use the Petroleum Registry System (the Registry) to share key volumetric, royalty and facility data. The Registry has a steering committee comprised of representatives from the Department, EUB and industry. The Registry includes computer edits to help validate volumetric data, including production data.

We are making two recommendations, one to the Department–section 1.1 and one to the EUB–section 3.1.1, since both organizations have differing responsibilities and objectives. Neither the Department nor EUB has fully considered their required levels of assurance over volumetric data.

1. Systems

1.1 Assurance on well and production data

Recommendation No. 28

We recommend the Department of Energy:

- **complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data, and**
- **communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.**

Background

The Department obtains assurance on well and production data from:

- the edit and validation controls in the Petroleum Registry System (the Registry); and
- the Department's systems and controls.

In our *2002–2003 Annual Report* (page 97), we recommended that the

Department:

- improve the communication of its needs for assurance on well and production data to the EUB
- evaluate the extent of audit work done on well and production data by the EUB in relation to its needs.

We have now revised our recommendation to focus more on the Department's responsibilities.

Criteria: the standards we used for our audit

The Department should have adequate assurance that well and production data reported by industry is complete and accurate.

Our audit findings

Department needs to evaluate risk and assurance

The Department has not developed a comprehensive, formal risk assessment for production and well data. The Department also has not evaluated the amount of assurance that the Registry edits and its other validation controls are providing.

Department identified joint steps

The Department has communicated to EUB the joint steps the Department and EUB need to complete with respect to production data;

1. quantify exceptions not subject to balancing controls between facilities (wells, batteries, gas plants, pipelines, etc.) within the Registry.
2. determine the types of EUB production audit findings and if they could have been prevented by the controls in the Registry.
3. understand how many discrepancies are identified by the balancing controls in the Registry and how EUB resolves them.

Department did not obtain assurance

However, the Department has not communicated how much assurance, if any, on the completeness and accuracy of well and production data it needs from EUB. EUB did not provide any such assurance to the Department for the 2003–2004 fiscal year. The Department has subsequently requested detailed audit findings to allow it to assess the impact on royalties.

Implications and risks if recommendation not implemented

The Department cannot be certain of the completeness and accuracy of well and production data that it uses to calculate crown royalty revenues.

1.2 Administering the oil sands royalty regime

1.2.1 Setting expected ranges—implemented

Background

In our *2003–2004 Annual Report* (No. 10—page 125), we recommended that the Department of Energy set expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications.

Our audit findings

Department set ranges for approval process

The Department has implemented our recommendation by improving their oil sands project application approval process and documentation controls. We examined 5 of 12 projects approved since October 2004. The Department conducted analysis using ranges for key inputs, such as prices, operating costs, capital costs and production. The Department indicates that it will continue to refine these ranges.

Department used benchmarks

The Department also compared the operating costs and capital costs for each project in our sample to benchmarks. Operating costs were compared to the National Energy Board benchmark ("Canadian Oil Sands: Opportunities and Challenges to 2015") and capital costs were compared to a benchmark based on past cost experience. The Department used its own forecasted prices for the present value test to assess economic justification. The Department retained the computer spreadsheets and supporting documents used to assess economic justification for all the project approvals we examined.

1.2.2 Incorporating risk in present value test—satisfactory progress

Background

In our *2003–2004 Annual Report* (No. 10—page 125), we recommended that the Department incorporate risk into its present value test used to assess project applications.

Our audit findings

Satisfactory progress

The Department formed a task force to recommend an approach or methodology to incorporate risk when assessing economic justification of an oil sands application. The Department wants the methodology to deal with various types of project applications. The task force drafted a discussion paper that explains the mechanisms for using a risk-adjusted discount rate as part of the economic evaluation of projects. The paper also recommends a method for calculating a risk-adjusted discount rate. This discussion paper is available to stakeholders to solicit their feedback.

To finish implementing this recommendation, the Department needs to use a risk-adjusted discount rate when considering project applications.

1.2.3 Evaluating industry reporting—implemented

Background

In our *2003–2004 Annual Report* (No. 11—page 127), we recommended that the Department of Energy improve its documentation of its verification procedures for oil sands royalty information and its audit results.

Our audit findings

Department improved its audit processes

The Department has implemented our recommendation by improving audit processes and documenting the work it completed and the results of its audits.

We reviewed 9 of 31 of the Department's audit files completed between October 2004 and March 2005. The risks for each component (expenses, revenue, and royalty) were identified and assessed in each file.

All audit files we examined had documented standard audit procedures for each section (capital costs, operating costs, revenue, royalties, etc). The procedures assessed the eligibility under the *Oil Sands Royalty Regulation, 1997* (the Regulation), such as determining whether costs are directly attributable to the project, reasonable in the circumstances, incurred by or on behalf of project owners, incurred on or after the effective date of the project, incurred for one of the ten purposes outlined in the Regulation and paid in the time the Regulation requires. All of the audit files contained documented audit procedures referencing the applicable working papers that support the work done.

1.3 Alberta Royalty Tax Credit (ARTC) program—not repeated

Background

In our *2002–2003 Annual Report* (No. 11—page 96), we recommended that the Department of Energy document and communicate the objectives of the *Alberta Royalty Tax Credit* program and use measures to assess whether the program is meeting its objectives.

This recommendation has existed in various forms since 1992–1993. The ARTC differs from other royalty reduction programs administered by the Department because it is set out in the *Alberta Corporate Tax Act*. The eligibility requirements and calculation of the royalty tax credit are defined in part 6-division 1 and part 11-division 1 and in the Regulations. Any changes to the ARTC would require this legislation to be amended. The other royalty reduction programs administered by the Department are designed to encourage industry to produce from wells that would otherwise not be economical or to achieve improved environmental results.

This year, we held extensive discussions with management to assess progress in implementing the recommendation. We also reviewed Department initiatives in the past year.

Our audit findings

Objective is simply to provide financial assistance

Management has confirmed that the objective of the ARTC is simply "to provide financial assistance to the oil and gas industry". This objective is achieved through income tax policy by providing royalty tax credits to individuals and corporations under the *Alberta Corporate Tax Act*. The amount of the royalty tax credit is disclosed in the financial statements of the Ministry of Energy and the Consolidated Financial Statements of the Province (2005–$102 million).

1.4 Royalty reduction programs

In our *2002–2003 Annual Report* (page 95), we recommended that the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives. Last year we reported satisfactory progress. Given the timeline, agreed to with management, we will follow up this recommendation in 2005–2006.

2. Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry and the Department. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—Alberta Energy and Utilities Board (EUB)

3.1.1 Assurance systems for volumetric accuracy

Recommendation No. 29

We recommend that the Alberta Energy and Utilities Board explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

Background

EUB is responsible for the policy and direct administration of the *Oil and Gas Conservation Act*. This Act and the related regulation include sections on the measurement of natural gas and oil volumes (volumetric data). EUB's business plan includes the goal of ensuring that industry complies with energy and utility regulatory requirements. Another stated EUB goal is to provide accurate, comprehensive and current information—including volumetric data—to stakeholders. This goal aims to ensure the availability of resource information for EUB and industry to support responsible development in the context of EUB's mandate.

EUB to set and enforce measurement standards

EUB develops measurement, accounting and reporting standards for oil and gas volumes. Industry is required to file volumetric data each month with EUB. There are more than 150,000 wells and 25,000 gathering and processing facilities in Alberta. EUB performs audits of the accuracy and completeness of the natural gas and oil volumetric data. The audits' primary focus is to assess compliance with measurement standards. EUB also inspects measurement devices periodically as part of its field environmental and safety inspections.

Volumes impact royalties

EUB and the Department of Energy (the Department) are jointly responsible for the volumetric assurance and control activities the Department uses and relies on to validate production data for its royalty calculations. Royalty calculations are based on the volumetric production data reported by industry to the Petroleum Registry System (the Registry). Industry is responsible to comply with legislation and measurement standards. Errors in this production data can impact how much royalty is collected. (See section 1.1 on page 165 for further details).

EUB uses volumetric data

EUB uses volumetric data, for example, to assess industry's ability to return wells and facilities to a safe condition after production has stopped. EUB also uses volumetric data to monitor reservoir performance and determine oil and natural gas reserves. In addition, EUB uses this data to regulate flaring and venting.

Criteria: the standards we used for our audit

EUB should have processes to:

1. set measurement accuracy standards and procedures for determining oil and natural gas volumes;
2. verify industry's reported volumetric data; and
3. enforce its measurement requirements.

Our audit findings

Set measurement standards—EUB met the first criterion: it set measurement standards for volumetric data and it periodically reassesses them. And EUB is currently in the process of consolidating and clarifing its guidelines and directives in one comprehensive measurement guide.

EUB partly met the second criterion.

Minimize errors—The key edits in the Registry that prevent and detect errors include the identification of:

- active wells and facilities for which volumetric data was not submitted.
- differences greater than 20% between a production company and a pipeline company's reported gas volumes—for volumes over 15,000 cubic metres.
- differences between a production company and a pipeline company's reported oil volumes.

Edits only prevent certain errors

But the Registry's edits were only designed to prevent certain errors. For example, the Registry only provides a warning message to natural gas producing companies who submit volumetric data that is 5% to 20% different from that submitted by the pipeline companies. Also, six pipeline companies do not report volumetric data to EUB through the Registry because they are regulated by the National Energy Board. EUB indicates that there are mitigating factors such as industry joint venture audits and controls at the Department.

EUB has not set desired assurance over reported volumes

Assurance over volumetric data—EUB has not determined its desired level of assurance over the accuracy and completeness of reported volumes. For example, EUB has not established that its audit, inspection and computer validation processes should provide a certain level of assurance (X% confidence) that the reported volumes are not significantly misstated.

EUB audits compliance

EUB audits determine whether companies comply with measurement standards—yes or no. EUB had an overall planning process to select audits based on those with the highest risks. However, EUB audit plans do not specifically assess the risk of intentional misreporting by industry or document that procedures were selected to address risks specific to the well or facility type. EUB audits found a majority of the wells or facilities examined were significantly unsatisfactory (6 to 11 deficiencies) or serious unsatisfactory (greater than 11 deficiencies) based on the number of areas where the companies did not meet measurement standards. While EUB found a number of deficiencies, it deemed them to be of a low risk from EUB's perspective.

EUB did not determine accuracy of volumes

EUB only reported the results of audits individually to the companies being audited. EUB summarized the production audit findings for 2003–2004. However, EUB did not provide any assurance over the completeness and accuracy of well and production data for the 2003–2004 fiscal year to the Department. EUB Production Audit Team has not communicated a confidence level over the accuracy of volumetric data reported to the Petroleum Registry and EUB—one of the Team's goals.

Problems with measurement devices common

EUB environmental and safety inspections (performed by the Field Surveillance Branch) do not specifically assess the accuracy of reported volumes. However, the Branch inspects companies' measurement devices to ensure they are appropriate, in place, and functioning according to standards. The Branch prepares an annual summary of the results of their environmental and safety inspections. The 2004 annual summary indicates minor unsatisfactory inspections of 22.4% of oil facilities and 24.8% of gas facilities. Problems in measurement and device calibration were among the most common minor unsatisfactory items for both oil (4.3% of all inspections) and natural gas facilities (11.5% of all inspections). Only in rare circumstances are measurement problems considered other than a minor unsatisfactory event. The annual summary is presented to all branches in EUB and is also published on EUB's website.

Few measurement issues were escalated

Enforce measurement standards—EUB partly met the third criterion. EUB expects that industry will understand its obligation to meet requirements and regulations, including those for measurement accuracy, and will have infrastructure in place to ensure proactive compliance. EUB enforcement principles require that repeated or similar non-compliance events result in escalating enforcement consequences. We noted there were many issues of non-compliance with the measurement standards and companies addressed the issues at the specific well or facility noted by EUB.

Enforcement criteria unclear for measurement

EUB's enforcement policy states that a company's status reverts back to "satisfactory" after 12 months with no major unsatisfactory inspection or audit in the same category. However, EUB Audit Team does not have sufficient resources to both follow up within 12 months for all of the companies that had unsatisfactory ratings and to perform new audits of other companies. Further, the enforcement criteria are not clear about what a major non-compliance event is for measurement inaccuracy.

Implications and risks if recommendation not implemented

EUB uses volumetric data to determine oil and natural gas reserves, assess industry's ability to return wells and facilities to a safe condition after production has stopped, and to regulate flaring and venting.

3.1.2 Liability Management for Suspension, Abandonment and Reclamation Activities

Recommendation No. 30

We recommend that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

Background

Industry is responsible for meeting requirements

The oil and gas industry is responsible for returning well, pipeline and facility sites to their original condition according to EUB and the Department of Environment's requirements. EUB is responsible to ensure upstream oil and gas sites have been appropriately suspended (safe and stable after normal operations have stopped) and abandoned (safe and stable after permanent dismantling). EUB also ensures oilfield waste management facilities are appropriately suspended, abandoned, decontaminated (harmful substances have been reduced or neutralized) and reclaimed (land is equivalent to its pre-disturbed state or for an alternate designated use).

EUB and Alberta Environment regulate

EUB solely regulates some of the wells, facilities and pipelines that have not been orphaned by industry; some are regulated together with the Department of Environment; and others with respect to certain activities are regulated by the Department of Environment alone.

DAO responsible when industry defaults

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association (the DAO) was delegated the legislative responsibility to administer abandonment and reclamation activities for orphan wells, facilities and pipelines (the Orphan Fund). The *Oil and Gas Conservation Regulation* allows for a levy on licensees of wells and facilities for the DAO. The Orphan Fund pays for the abandonment and reclamation of wells, facilities, and pipelines within the Licensee Liability Rating Program (LLR) if a licensee or working interest participant defaults on its obligation to abandon and reclaim or to pay the costs associated with those activities.

EUB program collects financial security

EUB administers programs that collect financial security from industry for the proper abandonment and reclamation of oil and gas wells and facilities and for the proper suspension, abandonment, decontamination and reclamation of oilfield waste management facilities. Our examination focused on these programs.

Criteria: the standards we used for our audit

a. EUB and the Department of Environment should clearly define their respective roles and responsibilities for liability management programs.

b. The EUB should have a system to assess and monitor:
  - oil and gas licensees' abandonment activities, and
  - licensees' abandonment and reclamation activities for oilfield waste management facilities.

c. EUB should establish the method and level of financial security it requires, track the security deposits, and periodically reassess the level of the security.

d. Senior management should obtain information to assess the effectiveness of liability management programs and develop programs for all wells, facilities and pipelines under its authority.

Our audit findings

Roles defined

EUB met criterion (a). The roles of EUB and the Department of Environment are defined in legislation. They also have memoranda of understanding that define roles and responsibilities for both the upstream oil and gas program, and the oilfield waste management program. EUB and the Department of Environment also have a memorandum of understanding with the DAO which defines roles and responsibilities.

EUB partly met criterion (b).

Program assesses ability to meet liabilities

Upstream oil and gas—EUB established the LLR Program to assess the ability of upstream oil and gas licensees to meet their abandonment and reclamation liabilities based on a comparison of their deemed assets to their deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, EUB collects a security deposit for the difference. In the LLR program, EUB deems a producer licensee's assets to be its cash flow from oil and gas production reported to EUB through the Petroleum System. EUB deems the assets of a licensee that does not produce oil or natural gas to be its cash flow from mid-stream activities. The deemed liability of a licensee is the cost to abandon and reclaim its wells, facilities and pipelines in the LLR program.

The purpose of the LLR program is to minimize the risk to the Orphan Fund posed by unfunded well, facility, and pipeline abandonment and reclamation liabilities.

No directives for timely abandonment

EUB issued a directive on December 1, 2004 (Directive 013) for suspension requirements, including the timelines within which the suspension of the well has to be completed. This allows EUB to now monitor industry's performance in meeting the suspension requirements. However, EUB has no directives or guidelines for timely abandonment of wells, pipelines and facilities.

EUB does not monitor period of inactivity

EUB does not produce regularly scheduled summary reports that track how long facilities and wells have been inactive but not abandoned. Inactive wells and facilities in the LLR program have increased approximately 11% and 56%, respectively, over the last two years. We note from December 2002 to December 2004, the deemed liability of licensees required to submit financial security increased from $40 million to $66 million. And this is only a small portion of industry's total deemed liability of $8.63 billion.

Program for waste management partly implemented

Oilfield waste management—EUB requires oilfield waste management companies to provide third party estimates of the costs of suspension, abandonment, decontamination and surface land reclamation for approved waste management facilities. EUB oilfield waste management program requires licensees to submit financial security equal to 100% of their liability to EUB. This ensures that all costs are covered if a facility goes out of business. However, EUB has currently collected financial security only for suspension and abandonment costs, not decontamination and surface land reclamation costs. EUB does not have a definitive estimate for decontamination and surface land reclamation costs. Phase 3 of this program, effective September 1, 2006, requires licensees to estimate decontamination and surface land reclamation costs and place an equal amount of financial security with EUB.

EUB met criteria (c) and (d). EUB established the method and level of security required for both upstream oil and gas and oilfield waste management facilities. EUB tracked the security deposits and periodically reassessed the level of the security required for each licensee. EUB's senior management obtained information to assess the effectiveness of liability management programs.

EUB has plans for a liability management program for certain sulphur recovery gas plants and standalone straddle plants. EUB is developing plans for major transmission pipelines.

Implications and risks if recommendation not implemented
Without a requirement for timely abandonment (and reclamation for oilfield waste management facilities), and subsequent monitoring and enforcement, industry may defer their abandonment and reclamation activities and costs. If certain licensees do not meet their responsibilities for abandonment and reclamation activities in the future, other licensees or the government may have to cover the liabilities.

3.2 Performance reporting

We issued unqualified auditor's reports on the financial statements of EUB and the Commission.

Environment

Summary: what we found in our audits

Systems

Financial security for land disturbances—The Ministry has made unsatisfactory progress determining whether it has sufficient security to ensure reclamation of oilsands and coal mines—see page 180.

Performance reporting

Our auditor's report on the Ministry's financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Ministry spent $132 million

In 2004–2005, the Ministry spent $132 million in its two core businesses:

	(millions of dollars)
Assuring Environmental Quality	86
Sharing Environmental Management and Stewardship	46

Ministry received $4 million

The Ministry received $4 million in 2004–2005 from sources external to the government:

	(millions of dollars)
Premiums, Fees, and Licenses	2
Other Revenue	2

For more detail on the Ministry, visit its website at www.gov.ab.ca/env.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendations.
2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Managing for Results

Background

On page 135 of our *2003 2004 Annual Report*, we reported on our audit of the Ministry's *Managing for Results* systems (business planning, performance information and human resource management). We recommended that the Ministry:

- further improve its business plan by:
  - clarifying its contributions to achieving the government business plan goals.
  - enhancing the description of the significant environmental factors and risks, and their relationship to the strategic priorities in the plan.
  - showing the corporate services areas as supporting all of the Ministry's core businesses.
- improve the process for developing new performance measures and ensure the measures in its business plan assess the results each goal aims to achieve (No. 13—page 138).
- clarify the goals, performance measures and targets in its human resource plan, and improve the quality of employee performance assessments and the method of feedback.

This year, we followed up to assess the progress the Ministry has made in implementing our recommendations.

Our audit findings

Business plan—satisfactory progress

Satisfactory progress

The *Environment 2005 2008 Business Plan* includes a clear and more comprehensive description of the actions the Ministry is taking to support achievement of the government business plan goals. Environment's Plan details the actions the Ministry is taking in support of two goals, five medium-term strategies and two cross-ministry initiatives in the government's strategic business plan for 2005–2008.

The Ministry has improved its presentation of corporate support services in its Plan to recognize how these strategies support its core businesses. Rather than presenting these strategies in a separate section, as is the case in many ministry plans, the *Environment 2005-2008 Business Plan* includes corporate services initiatives within the strategies for each of its core businesses.

The Ministry has expanded its "significant opportunities and challenges" section to further explain and clarify its approach to doing business. The additional information helps the reader to better understand the strategic priorities listed in the Plan. While the Plan's description of its strategies is comprehensive, the description of environmental trends and risks that could impact the Ministry's success in achieving its goals is not. To fully implement our recommendation, the Ministry must clearly identify the environmental trends and risks and explain their potential impact.

Performance measures—satisfactory progress

Satisfactory progress

The Ministry continues to improve its processes for developing its measures. It has undertaken an extensive assessment of measures in the ministry and divisional plans. We believe this work should continue.

Last year, for Goals 2 and 3, the measures were under development. We have now been able to conclude that these measures are both relevant and sufficient.

Last year, we concluded that the performance measures for Goal 1 were relevant, but not sufficient to measure performance. This continues to be the case in the Ministry's *2005–2008 Business Plan.*

To implement our recommendation, the Ministry must report measures for Goal 1 (Alberta's environment is clean and safe) that allow users to assess performance in relation to the different components of the goal.

Human resource management—implemented

Implemented

The Ministry has implemented our recommendation to improve its human resource plan. The *Alberta Environment 2004–2007 People Plan* is succinctly organized and shows the relationship between goals (titled "desired outcomes"), performance measures and targets.

The Ministry has identified desired outcomes under each of the three people strategies of leading, learning and workplace health. There are corresponding projects and processes to achieve the outcomes along with performance measures and targets which are derived from the corporate survey.

The format of the *Alberta Environment 2004–2007 People Plan* helps the users of the plan see at a glance the relationship between outcomes, the processes used to address the outcomes and how progress is measured in meeting the outcome.

The Ministry has implemented our recommendation to improve the quality of employee performance assessment information and methods of ongoing feedback. The Ministry has implemented this recommendation by:

- monitoring all performance management agreements and contracts,
- providing guidance to help managers and directors improve their processes, and
- reinforcing the modeling of leadership practices such as coaching and providing feedback through the Ministry Leadership program.

As a result of these improvements:

- employee performance documents reflect specific, concrete feedback, and
- Corporate Employee Satisfaction Survey results showed positive changes to employees' agreement that their organization helped then understand how well they were performing and that feedback received from their supervisor helped them improve their performance.

1.2 Contaminated sites information system—satisfactory progress

Background

Satisfactory progress

In our *2002–2003 Annual Report* (No. 12—page 103), we recommended that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.

The Ministry has a variety of business needs for contaminated site information. Without a complete, accurate, integrated information system, the Ministry can only summarize or report the status of contaminated site files with considerable manual effort. The system should identify the location and characteristics of each contaminated site, including any monitoring, recovery, or other actions.

Our audit findings

Progress is satisfactory. The Ministry intends to develop an automated system and begin using it in 2006–2007.

1.3 Financial security for land disturbances—unsatisfactory progress

Recommendation No. 31

Unsatisfactory progress

We recommend that the Ministry of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates (*1998-1999*—No. 30).

Background

Financial security is to cover the cost of reclamation that an operator is unable to complete. It is returned to the operator when the site is reclaimed, or forfeited if the operator fails to meet his obligations.

In our *1998–1999 Annual Report* (No. 30—page 157), we first identified that security may be inadequate and the process for obtaining it was applied inconsistently. We encouraged the Ministry to implement a financial security risk assessment model.

In our *2000–2001 Annual Report* (No. 8—page 90), we recommended that the Ministry deal with the risks of inadequate security. We noted that there were some large land-disturbing industries (oilsands and coal mines) that were not providing security at full cost of reclamation and there was no model in place to determine what a sufficient amount of security other than full cost might be.

Criteria: the standards we used for our audit

For us to consider our recommendation implemented, there must be evidence that the Ministry's system will result in:

- sufficient security to ensure completion of conservation and reclamation by considering:
  - nature, complexity and extent of the activity
  - probable difficulty of conservation and reclamation
  - consistent application of conservation and reclamation standards

Also, the Ministry should obtain security only in the form that it has defined as acceptable.

Our audit findings

Landfill, hazardous waste and recyclable operators

Under current legislation, security deposits for landfill, hazardous waste and recyclable operators are to be based on estimates of the full cost. Our testing showed that the estimates used were current and included all required costs. Effective November 2004, sand and gravel operations required additional security, but operators have until 2008 to post additional security.

Oilsands and coal mines

For oilsands and coal mines, for which the Ministry is legislatively responsible to collect reclamation security, there are still many inconsistencies. Some sites posted security under prior legislation and that security has been continued under existing legislation, with the result that some sites have security based on production. Some sites use outdated information to determine their estimated full cost of reclamation. Some estimates do not include all required costs. As a result of these inconsistencies, the sufficiency of security for the completion of reclamation is not ensured.

Implications and risks if recommendation not implemented

With the passage of time, the Ministry continues to be exposed to the risk of obtaining inadequate security resulting in additional costs to the province.

Executive Council

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry's financial statements was unqualified. We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

Overview of the Ministry

The Ministry coordinates the implementation and communication of the government's priorities. The Ministry consists of the Office of the Premier and Executive Council, the Public Affairs Bureau and the Office of the Chief Internal Auditor.

Three core businesses

The Ministry's 2004–2007 business plan identifies three core businesses:

- help government ministries communicate with Albertans
- provide Albertans with two-way access to government
- publish and sell Alberta's laws and other materials

In 2004–2005, the Ministry spent $23.1 million. Revenues of the Ministry were $5.8 million.

Further information on the Ministry can be obtained from www.gov.ab.ca and www.pab.gov.ab.ca.

Scope: what we did in our audits

1. Systems

We continued to monitor the government's progress in improving the governance and accountability of Academic Health Centres.

2. Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2005. We applied specified auditing procedures to the performance measures in the Ministry's *2004–2005 Annual Report*.

Our audit findings and recommendations

1. Systems

Council of Academic Health Centres of Alberta—governance and accountability—satisfactory progress

Academic health is a partnership

Academic Medicine is partnerships between the Alberta Cancer Board, Calgary Health Region, Capital Health, the University of Alberta—the Faculties of Medicine and Dentistry and the University of Calgary—the Faculties of Medicine and Veterinary Medicine. Collectively, they are responsible for the education of medical students and residents, undertaking a broad range of applied, basic and clinical research and providing a comprehensive scope of clinical services. Government funding is provided by the Departments of Health and Wellness, Advanced Education and Innovation and Science.

In our *1998–1999 Annual Report* (No. 18—page 89 and No. 19—page 91) we made recommendations to improve the accountability and transparency of Academic Medicine. Recommendation No. 18 addressed the full scope and magnitude of health activities to be recognized. Recommendation No. 19 dealt with the need to establish clear roles, mandates and accountabilities of the entities responsible for Academic Medicine and develop an appropriate organization and governance structure.

We expected it would take some time to implement the recommendations. As reported in our *2002–2003 Annual Report*, we will follow up and report in 2006.

Finance

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry and Department of Finance are unqualified. We found one exception when we applied specified auditing procedures to the Ministry performance measures—see page 193.

Other entities that report to the Minister

Three outstanding recommendations to ATB

- Systems—Alberta Treasury Branches (ATB)

  ATB should ensure lending practices comply with corporate lending policies (see page 193), branches comply with corporate policies and procedures (see page 195), and investment services subsidiaries comply with regulatory requirements (see page 197).

Unqualified opinions for ATB and its subsidiaries' financial statements and compliance audits

- Performance reporting—Alberta Treasury Branches (ATB)

  We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 3.2 of Scope. A public accounting firm issued unqualified auditors' reports for the compliance audits for these subsidiaries.

- Systems—Alberta Securities Commission (ASC)

  ASC needs to update its policies for hosting and working session expenses—see page 198.

  We are currently auditing ASC's management control systems relating to the enforcement of securities laws in Alberta. The results of this work will be reported in a separate report.

Unqualified opinions for other entities

- Performance reporting—other entities

  We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 3.4 of Scope.

Alberta Heritage Savings Trust Fund

- Performance reporting—Alberta Heritage Savings Trust Fund

  We provided interim review reports to the Endowment Fund Policy Committee and the Minister of Finance on the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Overview of the Ministry

Nine core businesses

The Ministry of Finance has nine core businesses:

- Fiscal planning and financial management
- Regulation of provincial financial institutions
- Pensions policy, regulation and administration
- Financial services
- Long-term revenue and investment policy
- Manage revenue programs
- Manage and invest financial assets
- Manage risk associated with liability exposure and loss of public assets
- Regulate and foster Alberta's capital market

Ministry manages $47 billion of investments

The Ministry manages investments with a market value of approximately $47 billion as at March 31, 2005. These investments include the assets of the General Revenue Fund, Alberta Heritage Savings Trust Fund, other provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Ministry received $10.9 billion

The Ministry collected over $10.9 billion in net revenues in 2004–2005 from the following sources:

	(millions of dollars)
Income taxes	7,013
Other taxes	1,612
Net investment income	1,787
Net income from commercial enterprises	193
Other	295
	10,900

Ministry spent $908 million

In 2004–2005, the Ministry expenses were $908 million. The largest expense was $545 million for interest and related expenses.

ATB

ATB, operating as ATB Financial, is a provincial agency accountable through its Board of Directors to the Minister of Finance. ATB provides a range of financial services including accepting deposits and making loans to Albertans and businesses. ATB has also established subsidiaries to distribute mutual funds and facilitate trading of securities on behalf of customers.

Websites for both Ministry and ATB

For more information on the Ministry and its programs, see its website at www.finance.gov.ab.ca. For more information on ATB, see its website at www.atb.com.

Scope: what we did in our audits

1. Systems

We followed up on our previous recommendations for the Department to improve its monitoring processes for private pension plans. We also followed up on our recommendation from last year for the Department to assess the adequacy of Canada Revenue Agency's compliance audit activities to justify its reliance on CRA.

2. Performance reporting

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2005. We also applied specified auditing procedures to the performance measures in the Ministry's *2004-2005 Annual Report*.

3. Other entities that report to the Minister

3.1 Systems—Alberta Treasury Branches (ATB)

We examined four areas: compliance with lending policies, internal controls at branches, enterprise risk management and subsidiaries' compliance with regulations.

3.2 Performance reporting—Alberta Treasury Branches (ATB)

We audited the financial statements of ATB for the year ended March 31, 2005. We also completed reviews of ATB's quarterly financial statements. In addition, we audited:

- ATB's Management Pension Plan for the year ended December 31, 2004.
- financial statements for the year ended March 31, 2005 for the three subsidiaries of ATB:
    - ATB Investment Services Inc.
    - ATB Investment Management Inc.
    - ATB Securities Inc.

In addition, a public accounting firm performed compliance audits for the following three subsidiaries and reported directly to the applicable regulatory bodies. We reviewed the results of these audits:

- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2005
- Investment Dealers Association of Canada's Joint Regulatory Financial Questionnaire and Report as at March 31, 2005
- Compliance with applicable sections of National Instrument 81–102 as required by the Alberta Securities Commission for the year ended March 31, 2005

3.3 Systems—Alberta Securities Commission (ASC)

We examined policies for purchasing, and hosting and working session expenses.

3.4 Performance reporting—Other entities

Other entities consolidated in Ministry financial statements

We audited the following entities that are consolidated with the Ministry:
For the year ended March 31, 2005:

- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2004:

- Alberta Capital Finance Authority
- The Alberta Government Telephones Commission
- Credit Union Deposit Guarantee Corporation
- Alberta Pensions Administration Corporation. We also completed reviews of each of the Corporation's quarterly financial statements.
- Gainers Inc. (year ended September 30, 2004)

In addition, we examined the financial statements, management letters, and audit files for the year ended December 31, 2004 for Alberta Insurance Council, a Crown-controlled corporation that is consolidated with the Ministry. A public accounting firm audits this entity.

Entities not consolidated in Ministry financial statements

We also audited the financial statements of the following entities that are not consolidated with the Ministry:
For the year ended March 31, 2005:

- Consolidated Cash Investment Trust Fund
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2004:

- Local Authorities Pension Plan
- Management Employees Pension Plan

- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

3.5 Performance reporting—Alberta Heritage Savings Trust Fund

We completed reviews of the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Our audit findings and recommendations

1. Systems

1.1 Monitoring private sector pension plans

Satisfactory progress

1.1.1 Compliance monitoring framework—satisfactory progress

Background

On page 152 of our *2003–2004 Annual Report* (No. 14) recommended that the Office of the Superintendent of Financial Institutions ensure that compliance staff:

- promptly review and follow-up on compliance information obtained from private sector pension plans
- receive appropriate training to effectively discharge their responsibilities

The Office of the Superintendent of Financial Institutions committed to review all pension business processes by March 31, 2005 and to provide staff with more training on performing pension plan reviews.

Our audit findings

The Office of the Superintendent (the Office) has made satisfactory progress implementing this recommendation.

Backlog removed

Review of compliance information—the Office has substantially removed the backlog of reviewing annual information returns and actuarial valuation reports. However, because the *Employment Pension Plans Act* and the Regulations do not prescribe due dates for submitting financial statements, the Office is still unable to receive audited financial statements from specified multi-employer pension plans on a timely basis. To solve this problem, the Office is seeking amendments to the Regulations to prescribe due dates for submission of audited financial statements.

Seeking amendment to Regulations

Improved documentation of

Evidence of work done—the Office has improved the documentation of work done

work done. It now uses checklists to document the work done during desk reviews and on-site examinations. However, the files do not document the supervisory reviews of these files.

Developing competency training program for all staff

Training—the Office has provided some training to Employment Pension division staff in reading pension fund and pension plan financial statements. It is currently developing a formal competency and training program for all staff of this division. The training program will cover all aspects of the Office's compliance monitoring activities for private sector pension plans. The Office informed us that it expects to complete the competency and training program during the fiscal year 2005–2006.

For the Office to fully implement this recommendation, it needs to:

- review audited pension plan financial statements on a timely basis
- implement its competency and training program
- implement a process for documenting supervisory review of on-site examinations and desk reviews

1.1.2 Compliance planning and reporting—satisfactory progress

Background

Satisfactory progress

On page 152 of our *2003–2004 Annual Report* (No. 15), we recommended that the Office of the Superintendent of Financial Institutions improve its processes for monitoring private sector pension plans by:

- preparing a risk-based annual plan for its compliance monitoring program that identifies resources required to effectively carry out the plan
- reporting the results of regulatory activities by compliance staff to senior management
- updating its policies and procedures manual

The Office of the Superintendent of Financial Institutions committed to use the risk assessment system to select plans for review in 2004–2005, and to expand the procedures manual to include all elements of the Pension Plan Intervention Program.

Our audit findings

The Department has made satisfactory progress implementing this recommendation.

Three-year business and annual work plans

Annual plan—the Department of Finance now prepares annual plans and three-year operations plans, which document the key initiatives of the Division and the number of on-site examinations and desk reviews the Office plans to conduct annually. However, these plans do not identify the pension plans that the Office should examine based on assessed risks, and the reasons and implications of not examining all high-risk pension plans.

Superintendent receives quarterly written reports

Reporting—the Superintendent of Financial Institutions now receives quarterly written reports on the results of regulatory activities, including performance measures, number of desk reviews and on-site examinations, and plans which have been put on a watch list.

Two manuals guide the work of compliance staff

Policies and procedures—the Office uses two manuals to guide the work of compliance staff—Compliance Officers Handbook and Pension Plan Intervention Program Manual. The Office is currently working on including guidance on:

- identifying risk factors and unsafe and unsound administrative and investment practices
- the need for written documentation of the nature and extent of compliance work and supervisory reviews

For the Office to fully implement this recommendation, it needs to:

- have an annual plan that identifies the pension plans that the Office will examine based on assessed risks, and the reasons and implications of not examining all high-risk pension plans
- update the policies and procedures manuals to include guidance on identifying qualitative risk factors and the need for written documentation of work completed and reviewed

1.1.3 Compliance information—outstanding

Background

Recommendation outstanding

On page 152 of our *2003–2004 Annual Report*, we recommended that, for high-risk employer pension plans, the Office of the Superintendent of Financial Institutions obtain:

- assurance from pension plans' auditors on the plans' compliance with the *Employment Pension Plans Act*, Regulation and plan document
- information on pension plans' governance structure and practices

We also recommended that the Office of the Superintendent of Financial Institutions obtain audited plan financial statements from all employer pension plans.

The Government's response was that these recommendations are currently under review. The Office of the Superintendent of Financial

Institutions committed to obtain adequate information on the governance structure and practices during their reviews of high-risk plans.

Our audit findings

Advisory committee established

Management informed us that it needs to assess the impact of these recommendations on the stakeholders. To do so, it has established an advisory committee consisting of the Superintendent of Pensions, up to four representatives from pension plan sponsors, one representative from a Canadian financial institution and one representative from the accounting profession. We will report further on these recommendations once the Office decides how to proceed.

1.2 Reliance on Canada Revenue Agency—satisfactory progress

Background

On pages 275–278 of our *2003–2004 Annual Report,* we recommended that the Tax and Revenue Administration (TRA) division of the Ministry justify its reliance on the compliance audit activities of the Canada Revenue Agency (CRA).

Our audit findings

Satisfactory progress

TRA has made satisfactory progress implementing our recommendation. Based on the current information available from the CRA, the Ministry risk assessment for corporate income tax reflects the TRA evaluation of CRA's compliance audit activities.

TRA has made satisfactory progress implementing our recommendation, which was based on the following three criteria that TRA had to meet:

- reflect its evaluation of CRA's compliance audit activities in TRA's risk assessment,
- review the national and Alberta-specific corporate compliance audit plans of CRA,
- obtain information from CRA on the level of its Alberta-based audit resources, compliance activities, audit selection criteria and coverage, nature and extent of work, and results obtained.

TRA has met the first criterion, based on the current information available from CRA. To finish implementing the recommendation, TRA must meet the other two criteria and then incorporate the resulting information into its evaluation of CRA compliance audit activities.

Starting in 2005–2006, CRA has agreed to regularly provide the required information to TRA, and TRA recently received some planning and compliance audit results information.

TRA will use the information to compare CRA plans to actual results and to generally justify its reliance on CRA's compliance audit activities.

2. Performance reporting

Unqualified opinion

We have no reservations of opinion on the March 31, 2005 financial statements of the Ministry or the Department of Finance.

One exception noted

Our specified auditing procedures report includes one exception because we could not complete our specified auditing procedures on the following measure.

Underlying data not provided for part of one measure

For the measure *Number of accepted Financial Management Commission recommendations implemented as scheduled*, management asserts that 14 of the 22 accepted recommendations have been implemented. Management provided us with the final budget and business plan documents, but not the underlying data to support their assertion that they have implemented the first component of the following recommendation:

> Recommendation No. 15—there should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.

3. Other entities that report to the Minister

3.1 Systems—Alberta Treasury Branches

3.1.1 Lending policy compliance—unsatisfactory progress

Recommendation No. 32

We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies.
(*2002–2003*—No. 15)

Background

ATB has policies to manage credit risk

ATB establishes rules, guidelines and procedures to manage credit risk when lending officers issue new loans and manage existing loans. These play a critical part in ensuring that ATB operates within prescribed credit risk tolerances. In today's competitive and challenging lending environment, compliance with corporate rules is more important than ever to effectively manage credit risk.

Criteria: the standards we used for our audit

It is important that ATB ensure its lenders follow the established rules, guidelines and procedures when issuing new loans and managing existing loans. This means that ATB should:

- establish effective policies and procedures
- assign accountability for lending compliance
- monitor branches to ensure they comply
- take corrective action for non-compliance
- provide training in areas of non-compliance

Our audit findings

Unsatisfactory progress

We have made this recommendation annually since 2002–2003 and we are repeating it again as ATB has made unsatisfactory progress implementing it. We found a high number of loan files that did not comply materially with certain ATB lending policies. Material issues are those that involve a serious breach of a key control. These could affect the decision to grant or renew the loan, the potential for repayment of the loan or the terms of the loan. Our findings, supported by those of ATB's Internal Audit Department, are as follows:

Financial ratios frequently incorrect

- incorrectly calculated financial ratios that measure the borrower's financial condition and capacity to repay loans
- incorrectly calculated collateral values to determine maximum loan amount

Lack of employment income verification

- lack of evidence in files that lending officers verified borrower's employment income
- premature payment of funds before borrowers met approval conditions

Lack of authorization

- lack of proper authorization for loans exceeding the lender's approval limits
- lack of documentation of loan agreement violations and no mitigation or reporting of violations to appropriate senior officials

Borrowers not reporting back to ATB

- lack of accurate and timely reporting from borrowers after loans have been granted
- unrecorded commitments to lend

Policies and procedures

For the last three years, ATB had a project to redesign business loan processes and centralize functions to improve compliance. During the year, this project was halted by management.

Management has begun in-depth policy review

ATB has started to clarify, streamline and simplify lending policies and procedures. It revised lending limits and income verification requirements; however, the roll-out of these policies occurred late in the year and the impacts of these changes are not expected until the following year. The Credit department will be doing a thorough review of all lending policies and procedures scheduled for completion by November 1, 2006.

Accountability, monitoring and correcting

More work required to assign accountability and to monitor lending compliance

ATB has made some progress in this area; however, there is still more work required, specifically, in assigning accountability and monitoring lending compliance. Currently, accountability is not clearly assigned and management relies on Internal Audit to assess the level of lending compliance at the branches. Throughout the year, a few lending officers have been reprimanded for poor audit results and, in some cases, lenders have lost their jobs.

In 2003, ATB's management formed a Credit Operations group to analyze lending compliance issues and implement an action plan by September 30, 2003. This did not occur and the Credit Operations group was disbanded.

Training

ATB should provide adequate training

ATB is continually challenged at the branch level with high turnover rates and a lack of experienced staff. To mitigate the risk that inexperienced staff will make mistakes, management is planning to increase the level of training to staff. Staff should understand the purpose behind the lending policies and why they are critical in managing credit risk.

Implications and risks if recommendation not implemented

Failure to follow established lending policies increases ATB's credit risk, which is the potential for loss from borrowers failing to repay their loans.

3.1.2 Branch operations compliance—unsatisfactory progress

Recommendation No. 33

We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures. (*1999-2000*—No. 49)

Background

Management must ensure controls are effective.

Management is responsible for ensuring that adequate controls are in place and functioning properly at the branches.

Criteria: the standards we used for our audit

Management should:

- establish effective policies, procedures and compliance benchmarks

- assign accountability for branch compliance
- provide training in areas of non-compliance
- monitor branches to ensure they comply
- take corrective action for non-compliance

Our audit findings

Unsatisfactory progress at branches to improve compliance

We have made this recommendation annually since 1999–2000 and we are repeating it again as ATB has made unsatisfactory progress implementing it. Although management has made some progress correcting the non-compliance, the results of ATB's Internal Audit Department's branch reviews indicate that further action is required to ensure branch employees follow ATB's policies and procedures. The more significant and recurring exceptions to policy listed below reflect Internal Audit's 2004–2005 findings:

- insufficient internal access controls into the main banking system
- lack of documentation explaining teller cash outages
- branches consistently exceeding their approved cash holding limits
- lack of documentation showing that branch managers and supervisors are performing their required tasks and duties, such as documenting surprise teller cash counts and automated banking machine cash counts
- no supervisor approval of transactions that exceed staff authorization limits
- insufficient authorization for dormant customer accounts that were reactivated
- new accounts missing required customer information and proper authorizations

Management has implemented several initiatives over the past six years to maintain and correct branch non-compliance. Most recently, a team was formed in 2004 to visit all branches to assess the level of compliance and develop action plans to improve areas of weaknesses. The team, however, was disbanded in 2005 as results did not improve. ATB also implemented compliance certificates for branch managers to assert their compliance with policies and procedures. However, four of five branches visited by Internal Audit had compliance certificates signed by branch managers without adequate documentation to support their assertions.

Management has begun in-depth policy review

Management has recently begun to reassess their strategy to increase compliance in problem areas. Management's new strategy includes an 18–24 month in-depth review of ATB's current policies and procedures to be completed by November 1, 2006. As part of this strategy, management should provide training to branch managers and staff so they understand the purpose behind the policies and procedures, and why they are critical to manage risk. As well, management should develop a mechanism to consistently enforce consequences for non-compliance.

To measure the effectiveness of management's new strategy, ATB should develop clear benchmarks for acceptable levels of compliance.

Implications and risks if recommendation not implemented

Risk of financial losses

Although ATB's identified operational losses have been low, all financial institutions, including ATB, must have a strong control environment and a culture that does not tolerate non-compliance. Otherwise, ATB is exposed to losses when policies and procedures are not followed.

3.1.3 Enterprise risk management—satisfactory progress

Background

Risk management contributes to success

Since 2002, we have recommended that ATB implement an enterprise risk management (ERM) strategy to assist in managing all significant risks (*2001–2002 Annual Report*—No. 16, page 101). ERM contributes to an organization's success by encouraging management to take a proactive and a high-level approach to managing risks.

Our audit findings

ATB has developed a risk management strategy

Management has made satisfactory progress implementing this recommendation. ATB has developed an ERM strategy and established two committees to regularly monitor risk levels, strategies and controls throughout the organization.

Periodic reviews required

To finish implementing this recommendation, management must develop a process to periodically review and evaluate the effectiveness of the committees in identifying and managing risks.

3.1.4 Investor services subsidiaries' regulatory compliance—satisfactory progress

Background

ATB has three wholly-owned subsidiaries

ATB has three wholly-owned subsidiaries that provide investment services and products to ATB customers. On page 162 of our *2003–2004 Annual Report*, we recommended that ATB Investment Services (ATBIS), ATB Investment Management (ATBIM), and ATB Securities enhance their control processes to ensure they meet regulatory requirements.

Our audit findings

Satisfactory progress

Overall, management of the subsidiaries has made satisfactory progress implementing our recommendation. Last year, we identified problems in the areas of independent reviews, internal control policies, trust account deposits and secure document storage. Management has resolved these problems. Also, the Audit Committee of ATB has expanded its terms of reference to include responsibility for reviewing the three subsidiaries' internal control policies and their financial statements.

To implement this recommendation, management must:

Inadequate segregation of accounts

- Segregate the accounts—ATBIS and ATBIM transactions and assets are not adequately segregated from each other and from ATB because they share a general ledger with ATB.

Mutual fund trades not properly processed

- Process mutual fund trades properly—In our sample of 60 items, we noted 8 cases where the investment advisors did not specify the time that the client initiated the trade, potentially resulting in an incorrect mutual fund price being used.

Potential for unauthorized access to system

- Monitor access to the mutual fund trade system—there is no formal review by management of employee access to the mutual fund trade processing system. Employees who have changed jobs or left the subsidiary may still have unauthorized access to the system.

Management resolving weaknesses

Management is in the process of implementing a separate general ledger for the two subsidiaries. Also, they plan to correct the processing of trades and unauthorized system access risk problems by September 30, 2005.

3.2 Performance reporting—Alberta Treasury Branches

Unqualified opinions for ATB and its subsidiaries' financial statements and compliance audits

We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 3.2 of Scope. A public accounting firm issued unqualified auditors' reports for the compliance audits for these subsidiaries.

3.3 Systems—Alberta Securities Commission

3.3.1 Enforcement systems

We are currently auditing ASCs management control systems relating to the enforcement of securities laws in Alberta. The results of this work will be reported in a separate report.

3.3.2 Hosting and working sessions policies

Recommendation

We recommend the Commission update policies and improve controls over hosting and working session expenses.

Criteria: the standards we used for our audit

There should be clear policies on what constitutes acceptable expenses and controls to ensure compliance with those policies.

Our audit findings

The Commission reimburses management and employees for reasonable hosting and working session expenditures incurred when it is necessary for the conduct of the business of the Commission. The Commission's current policy does not define or describe hosting or working sessions, nor does the policy offer any guidance to assist in determining what may be reasonable.

We examined expense reimbursements for hosting and working sessions and we found:

- Two dinners at local restaurants for Commission Members and senior management where liquor expenses approached or exceeded the cost of food. At one dinner, eleven bottles of wine were purchased for twelve dinner participants. At a second dinner, over half of the $2,468 dinner bill for an unknown number of participants related to liquor purchases. A third dinner cost $1,351 and lacked sufficient documentation to determine the number of participants or what was consumed. These dinners were recorded as "Hosting".

Implications and risks if recommendation not implemented

Policies that do not clearly identify the circumstances under which public funds are used for hospitality and working sessions increase the risk of inappropriate expenditures.

3.4 Performance reporting—other entities

Unqualified opinions for other entities

We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 3.4 of Scope.

3.5 Performance reporting—Alberta Heritage Savings Trust Fund

As requested by the Ministry, we provided interim review reports on the Alberta Heritage Savings Trust Fund's quarterly financial statements to the Endowment Fund Policy Committee and the Minister of Revenue. The reports say that we are not aware of any material changes that are needed for these financial statements to meet Canadian generally accepted accounting principles.

Gaming

Summary: what we found in our audits

Systems

The Department should improve its grants management process—see page 202.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Gaming and Liquor Commission (AGLC), and Alberta Lottery Fund are unqualified. We found no exceptions in performing specified auditing procedures on the performance measures of the Ministry.

Overview of the Ministry

Ministry core businesses

The Ministry's 2004–2007 business plan describes three core businesses:

- Ensuring Alberta's liquor industry operates with integrity and accountability and in a socially responsible manner
- Ensuring Alberta's gaming industry operates with integrity and accountability and in a socially responsible manner
- Ensuring the Alberta Lottery Fund benefits Alberta communities

Ministry received $1.84 billion and spent $1.27 billion

In 2004–2005, the Ministry had total revenues of $1.84 billion and expenses of $1.27 billion. The majority of revenues ($1.83 billion) came from the net gaming and liquor income of AGLC.

	(millions of dollars)
Expenses are:	
Lottery funded programs	192.6
Gaming research	1.6
Ministry support services	1.6
	195.8
Lottery Fund payments to other ministries	1,074.4
	1,270.2

For more detail on the Ministry, visit its website at www.gaming.gov.ab.ca.

Scope: what we did in our audits

1. Systems
We examined the Department's systems for managing grants. We also followed up our previous recommendations for gaming worker registration, integrity of gaming activities and use of gaming proceeds at AGLC.

2. Performance reporting
We audited the financial statements of the Ministry, Department, AGLC, and Alberta Lottery Fund for the year ended March 31, 2005. We also audited:
- the financial statements of the Alberta Gaming Research Institute for the year ended March 31, 2005
- AGLC–Schedules of Sales Volumes of Liquor Containers

We completed specified auditing procedures on the performance measures of the Ministry.

Findings and recommendations

1. Systems

1.1 Grants management

Background

The Department administers the Community Facility Enhancement Program (CFEP), the Community Initiatives Program (CIP), and the Other Initiatives Program (OIP), which provide funding to not-for-profit organizations, Alberta municipalities, First Nations, and Métis settlements.

Published guidelines for CFEP

Community Facility Enhancement Program (CFEP)—According to guidelines published by the Department, CFEP provides matching funding to a maximum of $125,000 per facility per year for expanding or upgrading community facilities. However, the Minister of Gaming can direct the Department to award grants over $125,000, or to change conditions such as the requirement for matching funds. In 2004–2005, grants for CFEP totalled $39.5 million (compared to $38.5 million in 2003–2004).

Published guidelines for CIP

Community Initiatives Program (CIP)—The CIP provides matching funding with a maximum of $75,000 per project per year to support community based initiatives. In 2004–2005, grants for CIP totalled $30 million (compared to $30 million in 2003–2004).

No published guidelines for OIP

Other Initiatives Program (OIP)—The Other Initiatives Program provides funding for projects that do not fall within the criteria or parameters of other government programs. The Department has not established or published eligibility criteria for the Other Initiatives Program because of the unique nature of the program. The Minister of Gaming receives requests for funding either directly or through another Member of the Legislative Assembly. Grants are awarded at the Minister's discretion. The Minister advises the Department of the grant recipients, the purpose of the grants and each grant amount.

Before grant recipients receive funding, they are required to sign agreements with the Department. The agreements outline the terms and conditions of the grant. In 2004–2005, Other Initiatives Program grants totalled $16.7 million (compared to $13.1 million in 2003–2004). The Other Initiatives Program provided grants ranging from $0.1 million to $3.3 million to 31 organizations in fiscal 2004–2005.

1.1.1 Awareness of grant programs available

Recommendation

We recommend the Department of Gaming ensure the published information, such as on www.albertalotteryfund.ca/grants, for grant programs available, is complete.

Recommendation

We also recommend the Department of Gaming develop guidelines for assessing Other Initiatives Program grants.

Criteria: the standards we used for our audit

To ensure each grant request is assessed as it relates to the program requirements, the Department should establish guidelines that clearly define which recipients are eligible for what grants.

To ensure that all potential grant applicants are aware of the grant programs available, the Department should publish guidelines that explain the:

- purpose of the programs
- form and size of grants available
- eligibility criteria for organizations and projects
- application and approval process

Our audit findings

Community Facility Enhancement Program (CFEP)—The CFEP met all criteria except the form and size of grants available. The gaming website includes a link for the CFEP including an information and application package that describes the purpose of the program, eligibility criteria, and the application and approval process.

21 CFEP grants exceed maximum amounts per published guidelines

The CFEP application form states, "the maximum request is 50% of total project cost up to $125,000 per facility per year." However, in fiscal 2004-2005, 21 applicants received funding over $125,000. These 21 applicants received funding totalling greater than $9.5 million of the total $39.5 million CFEP funding. We also noted that 2 of the 21 applicants each received more than one grant in the fiscal year for a specific facility, even though the grant application states, "Only one application can be submitted for a specific facility in each fiscal year".

Management informed us that the Department has expanded CFEP to award grants over $125,000. However, the Department has not yet decided to publish this information.

CIP published guidelines

Community Initiatives Program (CIP)—The CIP met all criteria. The gaming website includes a link for the CIP including an information and application package that describe the purpose of the program, size of the grants, eligibility criteria and the application and approval process.

No guidelines established for OIP

Other Initiatives Program (OIP)—The Department has not established or published any guidelines for the Other Initiatives Program because of its unique nature. As a result, we were unable to determine if requests for Other Initiative grants were assessed on a consistent basis.

Not all grant applicants have equal opportunity to receive grants

Implications and risks if recommendation not implemented

If the Department does not publish all the details of its grants program, not all potential grant applicants will have an equal opportunity to apply and to receive grants. Also, without documented guidelines and processes, the Department may not assess all grant requests received consistently.

1.1.2 Review of accounting

Recommendation

We recommend the Department of Gaming improve the timeliness of its grant monitoring.

Background

The Department provides grant funding to not-for-profit organizations through the Community Facility Enhancement Program (CFEP), Community Initiatives Program (CIP) and Other Initiatives Program. These organizations must use the grant funds for the purposes the Department approves.

Criteria: the standards we used for our audit

The Department should have a formal process for monitoring grants to ensure:

- the recipient uses the grant for the purposes intended
- the Department receives reports from grant recipients within a reasonable time
- the Department verifies the reported information promptly

Our audit findings

The Department reviews the financial reports submitted by grant recipients, but not promptly.

Community Facility Enhancement Program (CFEP) and Community Initiatives Program (CIP)—For CFEP and CIP grants, the Department sends out financial accounting statements to grant recipients after they cash the cheques. Grant recipients use these statements to report how they spent the grant money. The Department encourages grant recipients to file these statements upon project completion. However, it does not require them to file these statements until 24 months after the cheque date. The Department sends out reminder letters 18 months after the check date and after 24 months to those recipients whose statements have still not been received.

Grant recipients take over 24 months to report on spending

Grant recipients do not always file financial accounting statements within the required time. Of the 40 fiscal 2002–2003 files we sampled (20 CFEP and 20 CIP), 10 statements were provided on time, 25 statements were submitted after the prescribed date and 5 statements that were due 5 to 7 months earlier had not yet been received by the Department.

Department late in reviewing spending reports

Department staff review the submitted financial accounting statements to ensure the grants were used for the projects the Department approved. Of the 18 statements, which were available for us to examine, the Department had not yet reviewed 14 statements. The Department received the statements between November 19, 2003 and February 25, 2005.

The Department advised us that grant recipients do not receive new grants until all outstanding accounting statements have been received and reviewed. However, it does provide grants to applicants whose accounting statements are not yet due. We noted one applicant who received new grant funding even though they had an overdue accounting statement from a previous grant.

Other Initiatives Program

The Department signs an agreement with all grant recipients. The agreement details the grant recipient's reporting requirements. Of the 15 Other Initiatives Program files we examined, 4 grant recipients were on average 12 months late in submitting their reports. Also, the Department did not review these reports 5 to 8 months after receiving them.

Implications and risks if recommendation not implemented

The lack of prompt receipt and review of the financial accounting statements could result in the Department not identifying on a timely basis organizations that may not have used grants for their intended purposes.

1.2 Gaming worker registration—implemented

Background

On pages 168–170 of our *2003–2004 Annual Report*, we made the following recommendation:

- AGLC improve the worker registration process, including controls to confirm the identity of gaming worker applicants.

Our audit findings

Recommendation implemented

AGLC has implemented this recommendation. In February 2005, AGLC sent letters to all casino and racing entertainment centre facility operators advising them that effective immediately, licensees will be required to check and verify potential employees' photo identification to confirm the identity of the individual. AGLC has updated their inspection program, and Inspector's have commenced inspections to ensure facility operators are complying with this new requirement.

1.3 Integrity of gaming activities

1.3.1 Gaming products and services—implemented

Background

On pages 127–128 of our *2002–2003 Annual Report*, we recommended AGLC implement processes to ensure:

- gaming operators buy gaming supplies only from registered suppliers,
- AGLC buys gaming terminals and gaming supplies only from registered suppliers.

Our audit findings

Recommendation implemented

AGLC has implemented this recommendation. AGLC revised its casino inspection program to verify that gaming operators buy gaming supplies only from registered suppliers.

Inspectors verify compliance

We examined recent inspection files and found that they contained evidence that the gaming operators bought gaming supplies only from registered suppliers.

AGLC revised its policies

AGLC revised its policies for buying gaming terminals and gaming suppliers. AGLC maintains a list of registered suppliers for gaming terminals and gaming suppliers. All purchases of gaming terminals and gaming supplies are verified to ensure it is on the list of registered suppliers.

1.4 Use of proceeds—implemented

Background

On pages 128–130 of our *2002–2003 Annual Report*, we recommended that AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds. In 2003–2004, we reported that AGLC had prepared an action plan to clear the backlog of outstanding financial reports by March 31, 2005.

Our audit findings

Recommendation implemented

AGLC has implemented this recommendation. In 2004–2005, AGLC implemented its action plan and at March 31, 2005 the number of outstanding financial reports was insignificant. Also, senior management receives from the Regulatory Division, monthly status reports on financial reports reviewed and issued to charities. Periodically, management provides these status reports to the Board.

New performance measure for use of proceeds

AGLC's *2004–2005 AGLC Annual Report* will contain a new performance measure "Percentage of charitable gaming financial reports produced within established timeframes."

Government Services

Summary: what we found in our audits

Systems

The Ministry needs to implement the Office of the Chief Internal Auditor's recommendations to improve the Ministry's planning and monitoring processes for the Registry Renewal Initiative—see page 211.

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2005 was unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

The Ministry's 2004–2007 business plan identifies two core businesses:

Two core businesses

- supporting a fair and effective marketplace
- leading service improvement initiatives on behalf of the Government of Alberta, to improve Albertans' access to services, ensure protection of their privacy and streamline government support processes

The Ministry now consists of the Department of Government Services, and the Utilities Consumer Advocate (the Advocate). The Alberta Corporate Service Centre was transferred to the new Ministry of Restructuring and Government Efficiency in November 2004.

Ministry spent $76.5 million

In 2004–2005, the Ministry spent $76.5 million.

Ministry received $350.6 million

The Ministry received approximately $347.8 million from fees and licences and $2.8 million from other revenues.

For more details on the Ministry, visit its website at www.gov.ab.ca/gs/.

Scope: what we did in our audits

1. Systems

We followed up the Department's progress implementing our previous recommendations to have recovery facilities and equipment available to resume business operations if a service disruption occurs, and to complete and approve a project management framework for the Registry Renewal Initiative

We also examined the Ministry's *Managing for Results* systems (business planning, performance information and human resource management) to determine if cross-government recommendations were implemented and identify examples of good practices.

2. Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2005. We applied specified auditing procedures on the Ministry's performance measures in its *2004–2005 Annual Report*.

Our audit findings and recommendations

1. Systems

1.1 IT Disaster recovery plan—satisfactory progress

Background

Ministry did not have recovery equipment for service disruptions

The computerized registry systems for land titles, motor vehicles and personal property are critical for the Ministry, as these systems support the delivery of its core businesses. The Ministry has contracted out the operation and maintenance of these systems to a private sector service provider. In 2003, we recommended that the Ministry make provision for appropriate information technology recovery facilities and equipment to resume business operations if a service disruption occurs.

Our audit findings

Recovery equipment now available but plan still needs testing

The Ministry is making satisfactory progress implementing the recommendation. The Ministry now has appropriate recovery equipment available, if a service disruption occurs. The Ministry plans to document the disaster recovery plan as part of a testing exercise planned for October 2005.

To finish implementing the recommendation the Ministry needs to document and test its disaster recovery plan.

1.2 Registry Renewal Initiative

Background

Initiative to renew land titles, motor vehicles and personal property registries

The Registry Renewal Initiative (Initiative) is a program to move the land titles, motor vehicles and personal property registries to new technology. The Initiative also includes developing a system with common business functions such as finance, audit and security for all registries. The motor vehicle registry includes some sub-systems to help the Ministry of Infrastructure and Transportation deliver some of its programs, such as the graduated driver licensing program. Several private sector service providers are involved in developing the new systems.

$37 million spent on the project; significant work remains

The Ministry spent $37 million from 2002 to 2005 and now expects the Initiative to cost significantly more than the original $100 million estimate. The Ministry has implemented the Spatial Information System for land title searches and expects to implement the new personal property registry in March 2006. The Ministry has not started any significant work on the motor vehicle registry or the registration sub-system of the land titles registry.

1.2.1 Developing a project management framework—implemented

Background

2002–2003 recommendation

In our *2002–2003 Annual Report* (No. 19—page 140), we recommended that the Ministry complete and approve a project management plan for the Registry Renewal Initiative (Initiative). The Ministry did not have a framework describing the processes for managing the Initiative.

Our audit findings

Ministry developed project management framework for the Initiative

The Ministry implemented the recommendation. It updated the various components of the framework that describe the processes and controls for managing individual projects in the Initiative. The framework includes, for example, the following documents:

- risk management—identifies significant risks for the Initiative. The Ministry has also developed strategies to mitigate the risks.
- scope—describes the processes to define projects' scope and requirements, and controls to manage changes to the requirements.
- procurement—describes the processes and controls that should be used to purchase required services through contracts.
- human resources—describes the organization structure of the Initiative, and the individuals involved.

Process to update framework

The Ministry has also updated the business case for the Initiative and implemented a process to update the documents in the framework.

1.2.2 Implementation of project management framework

Recommendation No. 34

We recommend that the Ministry of Government Services implement the recommendations of the Office of the Chief Internal Auditor on improving the planning and monitoring processes for the Registry Renewal Initiative.

Background

Office of Chief Internal Auditor made 10 recommendations

Last year, in response to our recommendation in section 1.2.1 above, the Ministry requested the Office of the Chief Internal Auditor (Internal Audit) to examine the governance structure and the implementation of the project management framework and processes for the Initiative. Internal Audit issued a report in November 2004 that included 10 recommendations to improve the Ministry's planning, executing and monitoring processes and accountability for the Initiative.

Criteria: the standards we used for our audit

The Ministry should act promptly on the Office of the Chief Internal Auditor's recommendations.

Our audit findings

We examined progress in implementing recommendations

We reviewed the Internal Audit results and the Ministry's actions to implement the recommendations. We focused our work on the critical recommendations related to the planning and monitoring processes for the Initiative.

The Ministry has acted to implement some of the Internal Audit's recommendations. However, the Ministry has not yet addressed the following significant problems that Internal Audit identified:

Initiative plan outdated

- the Initiative plan is not comprehensive and is outdated. The plan is dated January 2004, and it does not yet include all the projects the Ministry will undertake during the Initiative with the available funding, the critical sequence in which to undertake projects, the influences of one project on another, or the resource requirements.

Project plans not comprehensive

- project plans do not identify critical milestones and measurable deliverables that should be produced at those milestone dates, or the influences between activities within a project and between projects to allow the Ministry to assess the effect that changes in scope, time delays and cost overruns in one project may have on other projects.

Status reports missing variance information

- status reports to the executive lack information on expected deliverables, timelines and costs against the plan, and reasons for, and potential impact of, significant variances. The Ministry does not have adequate processes to assess the impact that scope changes, time delays and cost overruns in individual projects have on other projects and the Initiative.

Critical sequence and interdependencies between projects are needed

Our examination of the Ministry's progress in implementing Internal Audit's recommendations also identified similar issues. The Ministry needs information to plan the overall Initiative and monitor progress against the plans. The Ministry has not defined the critical sequence for each project and interdependencies between projects. This information needs to be identified so that deliverables are available when needed and there are sufficient resources to ensure those deliverables are received on time. The resource requirements are important because if the Ministry undertakes more projects than the available resources can handle, projects will be delayed and cost-overruns may occur.

Various changes to project occurred during the year

As a result of not having appropriate planning processes, the Ministry:

- decided to develop common business functions as a separate project from the personal property project, so that the business functions were available when the personal property registry required them
- then decided to add the common business functions to the personal property registry project, and updated this project's schedule and costs
- subsequently removed the common business functions from the personal property project, without assessing whether the additional money and time was still required
- now again plans to develop common business functions as part of the personal property registry.

Status reports not complete

Status reports do not provide information on projects' overall progress if projects span more than one year. The personal property registry project–level status report indicates delays and major issues that were not reflected in the status reports. The Ministry now estimates the renewal for the personal property registry would cost approximately $5.2 million instead of the original $2.7 million estimate. This is due to an increased scope and delays.

The Ministry also recently hired a consultant to review various aspects of the Initiative, including the vision of the Initiative, the strategic direction, governance, costs, funding allocations, and other aspects of the Initiative. The results of the review will likely also affect the Ministry's processes for managing the Initiative.

It is critical for the Ministry to implement the Internal Audit recommendations to ensure the Initiative achieve its objectives, and to avoid significant time delays and cost overruns.

Implications and risks if recommendation not implemented
The Ministry may not achieve its objectives, and instead, may incur time delays and cost overruns.

1.3 Managing for Results

Background
The government's business systems require management to first state desired results in plans, then to manage the business to achieve the results, and finally, report actual results against the plan. These systems affect business planning, performance measurement and reporting, and human resource management. We call these processes Managing for Results. As part of our Managing for Results audit, we report good practices that can help all government managers.

4 recommendations in November 2004 to improve the Ministry's systems

In 2004, we looked at Managing for Results in the Ministry of Government Services. The Ministry's systems substantially met our criteria. In our November 2004 management letter to the Ministry, we recommended that the Ministry:

- continue to improve its business plan by including its regulatory organizations in the description of the Ministry, and describing its core businesses.
- improve its planning process by increasing staff involvement in developing the Ministry business plan, and by developing a more rigorous strategic planning process that includes assessing internal capacity and risks.
- improve its operational planning system by increasing staff input in developing operational plans and including links to the human resource plan and cost information.
- increase opportunities for employees and managers to participate in developing and implementing the human resource plan. We also recommend the Ministry of Government Services review the effectiveness of its performance planning guidelines.

This report includes findings, good practices and current status

This report includes the findings from the audit, including the good practices that we identified, and the status of the Ministry's progress implementing the recommendations.

Criteria: the standards we used for our audit

We used an extensive set of criteria that we developed by consulting with government management. In summary, business plans, performance reports and underlying systems should help management achieve desired results and legislators make informed funding decisions.

Our audit findings

Business plans—implemented

Plan improvements needed

The Ministry's 2004–2007 business plan substantially met our criteria and contained many good features. However, the plan did not include the Ministry's regulatory organizations in the description of the Ministry and did not describe the Ministry's core businesses.

Implemented

The Ministry's 2005–2008 business plan resolved this problem and finished implementing the recommendation. The plan refers to the four regulatory organizations that administer provincial legislation on its behalf in specific market sectors, and describes its core businesses.

Good features of the plan

Good practices in business plan presentation—The Ministry's business plan includes the following good features:

- The plan briefly describes the Ministry's key responsibilities under each core business, presents goals for each core business and performance measures under the goals, and includes targets for each year of the plan.
- An introductory section references and briefly describes what the Ministry is accountable for, including its four regulatory organizations, which helps readers understand the Ministry and its plan.
- A significant opportunities and challenges section links critical environmental trends facing the Ministry to its strategic priorities. Each priority is linked to a goal and includes a comprehensive description of what the Ministry will do.
- The Ministry plan provides clear links to the government business plan by listing the services that contribute to the goals in the government plan.
- The plan identifies the Ministry's primary stakeholders and the initiatives that depend on an active partnership with other ministries.
- The plan highlights the contribution of the Ministry's corporate services areas that support its two core businesses, and describes their role in helping achieve plan goals.
- The plan clearly defines the performance measures and targets for each goal. The measures have a logical relationship to the relevant

goal, and provide sufficient information to assess performance.

- The Ministry business plan shows costs for each goal under its core businesses in its *Expense-by-Core-Business* statement. Business plans are more useful when costs, including program support costs, are allocated to each core business systematically and rationally. Presenting the cost to achieve each goal further enhances the usefulness of the information and is a good practice that we would like to see in all ministry business plans.

Business planning—satisfactory progress

Criteria partly met

The business planning process in Government Services partly met our criteria for developing the business plan. We identified the following areas where the Ministry could improve its planning processes.

Planning session with staff and stakeholders took place after business plan was drafted

Staff and public involvement in developing the business plan—providing an opportunity for the public and stakeholders to have input into the Ministry business plan is an important part of an effective planning process that needs to take place earlier in the cycle. A planning session for managers, staff information sessions, staff focus groups, and a formal stakeholder consultation on the Ministry's 2004–2007 business plan took place in October 2003, after the business plan was drafted and just before its presentation to the Standing Policy Committee.

Improvements in 2005–2008 planning cycle

The Ministry made satisfactory progress implementing our recommendation during the 2005–2008 planning cycle. It moved the meeting with representatives from industry and consumer organizations to May 2004 so it could incorporate opportunities and challenges identified at these sessions into the business plan. Staff focus groups were also held in May 2004 to identify key challenges facing the Ministry and possible solutions.

In our follow up next year, we will assess other action taken to implement our recommendation, such as increasing involvement of operational staff in planning activities, and separating planning sessions for the new business plan from operational planning meetings that ensure implementation of the current business plan.

Long term strategic direction needs to consider environmental scan and risk assessment

Developing a strategic planning process that assesses internal capacity and risks—we did not find a rigorous planning process that integrates an internal and external environmental scanning and risk assessment process into a longer-term strategic direction. Identification of the key trends that could affect the Ministry over the longer term, and analysis of critical success factors and risks, should form the basis for the

Ministry's business plan priorities and strategies, as well as its operational plans.

An assessment of internal capabilities to identify Ministry strengths and weaknesses is critical. In addition, this process could involve analyzing staff capabilities and training and development needs, thus ensuring an opportunity to link the business plan to the Ministry's human resource plan.

Ministry developed risk assessment template since audit

The Ministry developed a risk assessment template for the 2005–2008 planning cycle. We will examine the template and its use as part of our follow-up work next year.

Good practices in business planning—The Ministry's business planning process contains the following good practices:

Business planning process contains many good practices

- The Executive played an active role by providing overall direction for the business planning process, participating in workshops and an Executive Committee retreat, discussing planning and budget issues and reviewing drafts of the plan.
- In June 2004, all department managers identified initiatives to support the strategic priorities and how each area will contribute to each priority. They also reviewed the existing performance measures and targets and proposals for new performance measures.
- Senior management in each business area provided feedback on the strategies and performance measures in the draft business plan before it went to the Minister for review.
- Stakeholder input was obtained by a formal meeting with industry and consumer organizations, as well as through ongoing consultation with stakeholder organizations throughout the year, surveys, and tracking of telephone calls and correspondence.
- Development of the budget is integrated with the Ministry business planning process. Strategies in the plan formed the basis for budget decisions. Priorities and strategies for the business plan are generally developed assuming no increases in spending targets. Once the final spending targets are received, if it appears they may not be met, the Ministry re-examines strategies to assess if it can make changes and whether to request additional funding.
- The Ministry has developed a set of ranking criteria to assist with the allocation of resources and the establishment of business priorities. Each business area is required to provide information on unfunded spending pressures that includes a description, estimated budget requirements, the impact of not funding, and whether it was a discretionary or mandatory priority.

- In addition to a breakdown of costs for each goal under its core businesses in its business plan, the Ministry has developed a thorough analysis of the method used to allocate costs to each core business, including direct and indirect costs. The allocation methodology is reviewed each year as part of the Ministry planning process.
- The Executive Committee received comprehensive information on the Department spending pressures, funds available, allocations approved and balance available, as well as the prior-year budget allocation, to assist them in decisions about the financial plan. They also received an analysis of risks that could impact funding decisions and other available options.

Implementing the business plan—satisfactory progress

Criteria substantially met

Ministry processes to implement the business plan substantially met our criteria.

Communication of the plan to staff could be improved

Effective implementation of the Ministry business plan depends on clear communication of the plan throughout the Ministry. The Ministry has produced some excellent documents to communicate the business plan. We found, however, that communication of the business plan throughout the Ministry could be improved to ensure that staff understands it. Each March, the Department holds staff information sessions to inform staff about the new business plan initiatives and significant changes from the previous plan, achievements of the past year, and the results from the Corporate Employee Survey and action to respond to those results. However, attendance at these sessions was low.

Progress in current year

The Executive level recognizes the need to improve communication. The Department is revamping its government intranet site, as well as planning a better internal website and distribution of the "placemat" brochure to all staff. The Deputy Minister now sends department-wide e-mails to staff updating them on progress and key achievements when there is something significant to report. The Ministry plans to hold additional information sessions for staff and encourage greater attendance.

Staff involvement in developing operational plans could be improved

Staff involvement in the operational planning process—we did not find consistent evidence that all staff participated in developing the division or branch operational plans. In general, senior management in each division or branch developed the operational plans and then presented the plans to their managers for comment. This may underlie our finding that other managers and operational staff were less knowledgeable about the Ministry plan and, in some cases, their division or branch plans. One division recently expanded its branch and division planning to involve other managers and some of its professional staff in planning and it reported positive feedback from staff.

Operational plans should clearly link to human resource plan

Link to Ministry human resource plan—the operational plans did not show clear links to the Ministry human resource plan. The majority of the operational plans did not include actions planned by the branch or division to implement specific aspects of the human resource plan.

Operational plans do not include cost information

Including cost information in operational plans—the operational plans do not include cost information. The Ministry does not have a formal process for costing outputs or linking costs to results beyond the goal level shown in the *Expense-by-Core-Business* statement in the Ministry business plan.

Ministry implemented new operational planning system since audit

Since our audit, the Ministry has implemented a new operational planning system, designed to "capture progress towards business plan goals, strategies and performance measures, as well as achievement criteria." During our original audit, we found that the new system ensured consistency across the Department and linked the plans to a quarterly reporting process. Ministry staff told us that they have initiated "a number of activities to strengthen operational planning" including regular meetings to assess progress reports from the system, and that a significant proportion of staff are involved in actively updating the information in the system. They also told us that the operational planning system has links to the human resource plan and that employee performance plans for 2005–2006 will include a link to the Ministry business plan goals.

We are encouraged by the Ministry action to implement our recommendation. We will assess and report on progress next year.

Good practices

Good practices in implementing the business plan—the Ministry's processes for implementing the business plan contain several good features:

- The Ministry has developed several excellent documents to communicate the business plan. In 2004–2005, the Ministry produced a brochure in a convenient format that provides an excellent summary of key business plan information. The Ministry also provided all managers with a comprehensive handbook of business planning documents, which includes much of the information managers need to discuss the business plan with staff.

- The Ministry supports operational planning for effective implementation of the business plan. The Executive Committee communicated its expectations that the operational plans should be in place by the beginning of each new fiscal year.
- Annual operational plans for all divisions of the Government Services department and the majority of its branches were completed. The plans are comprehensive and collectively address all Ministry business processes within its core businesses.
- Although the plans use several different formats, they showed links to the Ministry business plan and included all actions to implement the business plan.

Monitoring and reporting performance—no recommendation

Criteria met

We found that the Ministry's systems for monitoring and reporting performance met our criteria.

Good practices

Good practices in monitoring and reporting—the Ministry's systems contained the following good practices:

- In addition to regular Executive Committee meetings, the Department uses a formal quarterly reporting system. The Executive Committee reviews quarterly risk assessment reports that alert them to business plan strategies not proceeding as planned, performance measures results that indicate targets may not be met, and financial goals or other achievement plan criteria that may not be met.
- The Executive Committee also receives quarterly financial reports. It reviews variances and potential shortfalls and ranks activities to decide where to reallocate funds.
- The Department's proposed operational planning system includes a quarterly reporting component that will be based on the achievement criteria in the Ministry performance plan, the performance measures in the business plan, initiatives from the business plan and any day-to-day operations that are of sufficient importance to be reported at the Executive Committee level.
- Staff appreciated the value of ongoing monitoring and reporting on performance, and the use of results information to improve performance.
- The Ministry employs a range of monitoring, data collection, and activity tracking; it uses the results regularly.

The Department used logic models to review measures for the Freedom of Information and Privacy area—a strategy we consider to be a good practice. Departmental staff found the logic model process useful to clarify goals, activities, outputs and outcomes, and to confirm that appropriate performance measures were included in the Ministry business plan.

Good integrated results analysis in annual report

The *2002–2003 Ministry Annual Report* provided a good integrated analysis of financial and non-financial performance. The report included actual and planned costs and an explanation of significant variances for each core business. Goals, strategies and performance measures were linked to the core businesses. Explanations of significant variances in performance results and financial statement variances were also provided.

The Ministry plans to establish a quarterly managers' meeting to provide more opportunity to learn about and report on progress. The Ministry is revamping its intranet site to enable divisions and branches to communicate key documents and activities. The Ministry could consider making operational plans and quarterly reports available to all staff as part of an improved intranet.

Human resource management—satisfactory progress

Criteria substantially met

The Ministry's human resource management systems are well-designed. The Ministry's human resource planning and performance management systems substantially met our criteria.

More staff involvement needed in human resource plans

Effective human resource plans are an important tool for achieving ministry business goals. While human resources personnel play a leadership role in developing, communicating and reporting on the Ministry human resource plan, the Ministry needs to promote more active involvement by senior management and employees in developing and implementing the human resource plan.

Operational plans should effectively implement the human resource plan

The human resource plan provides a framework for resolving resource problems that reduce the probability of achieving the Ministry business plan. Expanding the operational planning process to require human resource initiatives in branch and division operational plans would make the high-level strategies in the human resource plan relevant to other levels in the organization. Employee input into performance planning at the beginning of the performance cycle, in conjunction with increased focus on operational planning, would improve individual performance planning by helping employees link their results with Ministry goals and understand how their performance contributes to the Ministry business plan.

Good practices

Good practices in human resource planning—the strategies in the Ministry human resource plan reflect input from employees on the Workplace Planning Committee and an analysis of corporate employee survey data. They are clearly aligned with the Corporate Human Resource Plan goals and strategies.

Good practices in the performance management system—the Ministry's performance management system reflects an integrated and well-defined performance planning and goal setting and assessment process that is aligned with the government human resource goals and the Ministry business plan. The system recognizes employees who meet these goals. The performance management system includes a performance plan and a learning plan. A report on achievements is completed at the end of the performance cycle. The guidelines are comprehensive.

Need to improve implementation of performance management systems

However, the Ministry's performance management system is not implemented consistently according to the program's guidelines:

- Supervisors can improve the quality of overall performance assessment information by including targets and measures in managers' performance contracts, and providing more objective and detailed written feedback to employees, including specific examples of accomplishments.
- Performance planning and development of learning plans could be improved. Employees told us that the learning plan could be used more effectively as a tool to focus personal development and identify all the training they need.

The Ministry needs to monitor performance management documentation to ensure the system is appropriately implemented.

Health and Wellness

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified.

Our auditor's report on the financial statements of the Ministry quantifies the effect on the Ministry's assets and liabilities if the Health Regions and Provincial Boards had been included—see page 231.

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems
  Health regions should improve the security and handling of high-illicit-value prescription drugs in their own pharmacies—see page 233.

- Performance reporting
  - We issued an unqualified auditor's opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission.
  - We issued unqualified auditor's opinions on the six Authorities and two Provincial Boards we audit.
  - Unqualified auditor's reports were issued by the appointed auditors of the three Authorities we don't audit.

Overview of the Ministry

3 core businesses

The Ministry's 2004–2007 business plan identifies three core businesses:
- encourage and support healthy living
- ensure quality health services
- lead the health system

Ministry received $2.7 billion

The Ministry collected $942 million in premiums and fees and received $1.7 billion from the Government of Canada.

Ministry spent $8.4 billion

The Ministry spent $8.4 billion in 2004-2005, for the following services:

	(millions of dollars)
Health Regions	5,588
Physician Services	1,537
Blue Cross Benefit Program	517
Human Tissue and Blood Services	122
Protection, Promotion, and Prevention	200
All other	436

For more detail on the Ministry, visit its website at www.health.gov.ab.ca.

Scope: what we did in our audits

1. Systems

Systems

We followed up, or will follow up, on our previous recommendations, as this table indicates:

We followed up on previous recommendations.

Year and reference of recommendation	Topic	Status	Section and page no. in this report
1999–2000–No. 21	Funding Health Regions using a population-based model	Follow-up in 2005-2006.	None
2000–2001–No. 14	Measuring and reporting the performance of the health system	Recommendation not repeated	1.7 page 230
2000–2001–No. 17	Systems for paying physicians	Follow-up in 2005-2006.	None
2000–2001–Page 127	Information systems management	Implemented	1.4 page 228
2001–2002–No. 24 And 2003–2004–No. 22	Information technology control environment	Satisfactory progress	1.3 page 227
2002–2003–No. 22	Accountability for restricted funding	Satisfactory progress	1.5 page 229
2002–2003–No. 23, pages 156 and 157	Province-wide Services	Follow-up in 2005-2006.	None
2002–2003–page 159	Alberta's Report on Comparable Health Indicators	Implemented	1.6 page 229
2003–2004–No. 21	Control over health care registration	Satisfactory progress	1.1 page 225
2003–2004–No. 23	Accountability of Health Regions to Minister of Health and Wellness	Follow up in 2005-2006.	None
2003–2004–page 193	Contracting for consulting services	Satisfactory progress	1.2 page 226

Separate report on Seniors Care and Programs

We issued a separate report on the Department's systems to manage seniors care and programs, titled *The Report of the Auditor General on Seniors Care and Programs*. An overview of the significant findings and recommendations from this report are in a separate section on page 53.

2. Performance reporting

We audited the financial statements of the Ministry and Department for the year ended March 31, 2005. We completed specified auditing procedures to the performance measures in the Ministry's *2004–2005 Annual Report*.

3. Other entities that report to the Minister

We audited the financial statements for the year ended March 31, 2005, of other entities that report to the Minister:

- Alberta Alcohol and Drug Abuse Commission
- Provincial Boards
  - Alberta Cancer Board
  - Alberta Mental Health Board
- Regional health authorities
  - Calgary Health Region, and Carewest, its wholly-owned subsidiary
  - Capital Health, and Capital Care Group Inc., its wholly-owned subsidiary
  - Chinook Regional Health Authority
  - East Central Health
  - Northern Lights Health Region
  - Peace Country Health

- We reviewed the auditor's reports and management letters of three Health Regions that we don't audit:
  - Aspen Regional Health Authority
  - David Thompson Regional Health Authority
  - Palliser Health Region

Our audit findings and recommendations

1. Systems—progress on past recommendations

1.1 Control over health care registration—satisfactory progress

Background

Satisfactory progress

In our *1998–1999 Annual Report* and again in our *2003–2004 Annual Report*, we recommended that the Department improve control over health care registration. Management accepted our recommendation and indicated they would work on implementing a more effective registration system.

Our audit findings

The Department made satisfactory progress implementing our recommendation by:

Application process strengthened

- requiring documentation to validate applicants' identity, legal entitlement to be in Canada, and residence in Alberta before providing coverage.
- improving information systems to support better recording and monitoring of validation activities.
- requiring photo identification and a statutory declaration in support of an application for a replacement card, if five or more replacement cards have been previously issued.

Hotline established

- establishing a toll-free hotline for citizens and health care providers to report suspected or known abuse of personal health numbers or cards.
- allocating new staff to carry out the above additional services.

To finish implementing our recommendation, the Department must demonstrate that its improved controls restrict health care services to eligible people.

1.2 Contracting for consulting services—satisfactory progress

Background

Satisfactory progress

Last year, there were allegations in the Legislative Assembly that the Department did not follow its own policy in awarding a contract. We reviewed the Department's awarding of that contract and reported in our *2003–2004 Annual Report* (page 193) that we found no explanation of why the service needed to be contracted, and no documentation explaining why a competitive bid process was not used.

Policy and procedures revised

In response to our findings, the Department introduced processes, effective November 2004, to:

- revise the Contract Policy and Procedures
- train staff on the Contract Policy and Procedures, and
- create a Quality Control Specialist function to provide assurance that contract payments are properly supported.

In May 2005, the Department established a Contract Review Committee, to review proposals to contract services greater than $25,000 and decide whether the Department should proceed with the proposal. The Committee is comprised of senior management from planning, risk management and legal services and is responsible to ensure that all contracting decisions add value and adhere to the Department's Contract Policy.

Our audit findings

Satisfactory progress

The Department made satisfactory progress implementing our recommendation. The Department's changes to policy and processes are designed to ensure that all contracting decisions are reviewed by a team of senior management, that contracts adhere to policy, and that all payments are properly supported.

Processes in transition

Using a sample of five contracts approved after November 2004, we assessed whether the Department had followed its policy and processes. It did so in four of the five cases; in one case the reasons for contracting were not documented by the Department. These results are reasonable because, during a transition, it takes time for new policies and processes to become effective.

To finish implementing the recommendation, the Department must test the new policy and processes to ensure they are working properly and achieving the intended results.

1.3 Information technology control environment—satisfactory progress

Background

In 2002-2003 we noted that the Department's IT control environment needed to be improved

In our *2002–2003 Annual Report* (No. 24—page 168), we recommended that the Department of Health and Wellness assess the effectiveness of the controls over information technology (IT), resolve deficiencies, and strengthen the overall control environment.

We had found that the Department had not performed a comprehensive risk assessment of its IT environment, and in particular, did not obtain assurance that its service providers were maintaining effective controls, and had not established and implemented an IT disaster recovery plan.

Our audit findings

The Department made satisfactory progress implementing our recommendation, as follows:

Satisfactory progress. A threat and risk assessment project plan has started

- Risk assessment
  The Department has prepared a threat and risk assessment project plan that management approved. The project has started and is scheduled to be complete by February 2006.

  To finish implementing this recommendation, the Department must complete the risk assessment of its information technology environment.

Satisfactory progress. A draft disaster recovery plan has been developed

- Disaster recovery plans
  The Department has drafted a disaster recovery plan, which inventories the Department's applications, servers, network components, operating systems and desktop computers. A simulation of the plan took place in June 2005. The Department will now update and retest the plan and then implement a regular test schedule.

  To finish implementing this recommendation, the Department must approve the disaster recovery plan and put a process in place to ensure that the plan is regularly tested and updated.

Recommendation implemented

- Outsourced computer environment
  The Department has implemented this recommendation. It has received appropriate assurance on its outsourced environment.

1.4 Information systems management—implemented

Background

In our *2000–2001 Annual Report* (page 127), we recommended that the Department of Health and Wellness, in collaboration with health regions, assess the benefits and risks of the approach used to manage information systems in the health system, and clarify the accountability of the Chief Information Officer (CIO) of Health.

Our audit findings

Recommendation implemented

The Department implemented the recommendation. It established an Information Management and Information Technology (IM/IT) Governance Council (the Council), which is advisory to, and chaired by, the Deputy Minister. The Council consists of representatives from the health regions, physicians, pharmacists, the cross-government CIO office, and the public.

The Council's mandate is to make recommendations on information management and information technology investments in the publicly funded health sector in Alberta. It provides strategic direction and tactical plans based on sector-wide goals and priorities. It also provides oversight of the building, implementation, operation and data stewardship of shared IM/IT investments. All major business initiatives, appropriately supported by business cases, must be presented to, and approved by, the Council.

The Ministry CIO is accountable for the Department, and accountable to the Deputy Minister. Similarly, health region CIOs are accountable for the business of the health region, and accountable to senior management of the health region.

1.5 Control of, and accountability for, restricted funding—satisfactory progress

Background

We previously recommended (*2002–2003 Annual Report*—(No. 22, page 152) that the Department track restricted grants so management can subsequently assess whether funding conditions were met and decide if unspent amounts are repayable to the Department.

In the 2004–2005 fiscal year, the Department issued approximately $460 million of restricted grants to the Authorities and Provincial Boards. The Department signed agreements with the Authorities and boards, specifying the funding conditions and reporting requirements for each grant.

Our audit findings

Satisfactory progress

The Department made satisfactory progress implementing our recommendation. It required Health Regions to report expenditures and unspent balances for restricted grants, starting with the 2003–2004 fiscal year. However, the Department told us that some Authorities and Boards provided summarized information that was not useful to program area staff that are required to monitor the grants. We found that two of the five grants we reviewed were not monitored.

The Department again asked Authorities and Boards to detail each restricted grant for the 2004-2005 fiscal year. The Department plans to ask program area staff to monitor compliance with the grant conditions.

To finish implementing the recommendation, the Department must demonstrate that it has a sustainable process to monitor compliance with grant conditions.

1.6 Comparable health indicators—implemented

Background

Recommendation implemented

In 2002–2003—page No. 159, we recommended that the Department of Health and Wellness continue to improve the processes used to prepare its next edition of *Alberta's Report on Comparable Health Indicators*.

Our audit findings

The Department implemented our recommendation. It improved its quality control processes for preparing the report. The report went through a thorough review that matched figures to supporting documentation. The Director, Assistant Deputy Minister, and overall project leader then reviewed the report. Due to the Department's control process, we found few errors when we reviewed the draft report.

1.7 Measuring and reporting the performance of the health system—recommendation not repeated

Recommendation not repeated

Our recommendation from 2000–2001 (No. 14, page 113) is neither implemented nor repeated due to changed circumstances. We recommended the Department, in cooperation with stakeholders, improve the measurement and reporting of the quality and cost of health services. We identified that sufficient information was not available to know what was happening to the cost and quality of health services.

When we made our recommendation, the ability of the Authorities to produce and report health information was significantly lower. In addition, when the Department reduced the number of Authorities from 17 to 9, effective April 1, 2003, the remaining 9 Authorities inherited information systems from the terminated Authorities. The Authorities are now replacing or upgrading their information systems. The Department advised us that they will mount initiatives to develop performance measures and improve reporting on quality and cost of health services for the 2005-2006 fiscal year.

We plan to do a new audit taking into account the Department's initiatives and the health regions' improved ability to collect and report quality and cost information.

2. Performance reporting

2.1 Financial statements

2.1.1 Ministry and Department financial statements

We have no reservations of opinion on the financial statements of the Ministry or the Department.

The Ministry includes in its financial statements those entities that are part of the government reporting entity. Health regions are not included in the Ministry financial statements for the year ended March 31, 2005.

As disclosed in Note 2 to the financial statements, the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

PSAB revised definition of the government reporting entity

PSAB revised the definition of the government reporting entity for implementation for years beginning on or after April 1, 2005. In Note 2, management states how it intends to comply with PSAB's recommendations.

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity. Our estimate of the effect on the Ministry's financial statements of expanding its reporting entity would be to increase assets by $4.9 billion and liabilities by $1.4 billion.

2.2 Performance measures

We found no exceptions when we completed specified audit procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—progress on past recommendations

3.1.1 Health Regions and Provincial Boards

Year and reference of recommendation	Topic	Status	Section and page no. in this report
2000–2001–No.20	Independent review of conflict-of-interest situations–Calgary Health Region	Implemented	3.1.1.1 Page 231
2000–2001–No.20	Independent review of conflict-of-interest situations–Capital Health	Follow-up in 2005–2006	None
2000–2001–Page 135	Performance measures for surgical services	Follow-up in 2005–2006	None
2002–2003–Page 161	Contract management	Implemented	3.1.1.2 Page 232
2001–2002–No.25	Managing cancer drug costs	Satisfactory progress	3.1.1.3 Page 232

3.1.1.1 Independent review of conflict-of-interest situations—implemented

Background

On page 134 of our *2000–2001 Annual Report*, we recommended that the Calgary Health Region enhance its conflict-of-interest processes by:

- extending disclosure requirements to senior management who are in a position to influence contract decisions, and
- using an independent third-party review, as part of a formalized appeal mechanism, when employees operate private practices or clinics that contract with their employers.

Our audit findings

Recommendation implemented

Last year, we reported that the first part of the recommendation was implemented. The Region has now fully implemented the recommendation. In 2004-2005, the Region revised its bylaws. One new bylaw prohibits employees from operating private practices or clinics that contract with the Region, unless the Chief Executive Officer exempts the employee. When exemptions are granted, the bylaw requires them to be publicly disclosed.

3.1.1.2 Contract management—implemented

Background

On page 161 of our *2002–2003 Annual Report*, we recommended that the Calgary Health Region set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks.

Our audit findings

Recommendation implemented

The Region implemented the recommendation. It set financial reporting and assurance requirements for contractors. The Region is also receiving audited financial statements and supplementary information from contractors. The Region's management used this information to monitor contractors' financial performance and risks.

3.1.1.3 Managing cancer drug costs—satisfactory progress

Background

We recommended in our *2001–2002 Annual Report* (No. 25—page 140) that the Alberta Cancer Board (Board) should improve systems for managing cancer drug programs.

Our audit findings

The Board has improved its systems by:

- incorporating strategies and targets for managing drug expenditures in its business plan.
- establishing a process, in collaboration with key stakeholders, to evaluate options to manage drug costs.
- improving financial information on drugs for management and reporting purposes.

The Board is developing a system for evaluating costs in relation to results achieved through best practices and corresponding outcomes. The Board has identified that it needs to document best practices, including the use of drugs, for treating different types of cancers, track outcomes of patients, and develop the system needed to collect the information for decision making. The Board has projects underway to enable it to accomplish this.

To finish implementing the recommendation, the Board must complete the projects.

3.1.2 Security and handling of high-illicit-value prescription drugs in Health Region pharmacies

Background

In 2003 an employee at a rural Alberta public sector health facility stole about 10,000 tablets of the prescription painkiller "Oxycontin." The theft was committed by manipulating the facility's drug ordering and record keeping systems. The matter was turned over to the police and pursued in the Courts. Oxycontin has been identified by police authorities as having substantial value in the drug abuse community.

We subsequently learned that prior to 1995, Health Canada regularly conducted unannounced audits at private and public sector pharmacies for drugs which were subject of federal legislation. However, since 1996, there have been no proactive, unannounced drug audits conducted at pharmacies by Health Canada, the Department, the RHAs or other agencies.

Sample of 13 pharmacies in 5 regions audited

We reviewed 13 pharmacies operated by 5 Health Regions to determine whether they had adequate processes to ensure the safe and lawful procurement, storage, handling, dispensing and disposal of the drugs.

We made a number of recommendations to each Health Region. In all cases, management responded favourably and indicated they will be acting on our recommendations promptly. We will assess the implementation of our recommendations in a follow-up audit.

Our audit findings

No evidence of theft of drugs in our sample

We did not find any evidence that a theft of the drugs had taken place at any of the 13 sites we visited. However, we did find that controls over drug procurement, inventories and dispensing could be improved.

Following are some recommendations that we made to the Health Regions in our sample:

- Monitor quantities as well as cost—monitoring the volume of drugs received by pharmacies may help identify trends and anomalies over time by specific pharmacies.
- Give support staff appropriate administrative duties—at some sites, pharmacist review of prescriptions was limited because of time spent on administrative duties.

- Recognize opportunities to segregate duties—this was a concern in all sites we visited. Often, staff members handled drugs from ordering to dispensing without corroboration of their actions.
- Take advantage of information technology—regular reporting of computer activity by individualized and confidential staff log-ins can ensure that record keeping and drug management responsibilities are appropriately aligned.
- Develop consistent incident reporting—we saw variations in how Health Regions defined and managed incidents in pharmacies such as loss, shrinkage, mistakes or suspected thefts.
- Review physical security—some pharmacies did not protect drugs sufficiently given the risk of theft and abuse.
- Identify prescription drugs with high illicit value—as new drugs become popular in the drug abuse community, the corresponding risk of abuse or diversion should be recognized by the Health Regions.

Implications and risks if recommendations not implemented

Risk of theft and abuse of drugs

The physical security and handling of the drugs by public sector pharmacy departments is critical due to the potential social damage from theft and misuse of these substances.

3.2 Performance reporting

3.2.1 Internal controls at Health Regions

Background

The Auditor General is the auditor of six of nine Authorities and both Boards (Cancer and Mental Health). For those Authorities we don't audit, we reviewed the management letters sent to the Authorities by their auditors. Audits are not designed to assess all key systems of control and accountability. However, auditors communicate any findings to management if weaknesses came to their attention when auditing the financial statements.

Our audit findings

Authorities were informed by their auditors of weaknesses in controls, including bank reconciliation, inventory handling, processing of supplier invoices, and in the information technology environment, including:

- access to data storage rooms
- access to rooms housing servers and other computer hardware
- access to computer information systems

- the need for IT disaster recovery plans

The Authorities and Boards are expected to report to the Department whether they accept the recommendations made by their auditors and how they will implement them.

3.2.2 Unqualified auditor's opinions issued on the six Health Regions and two Boards we audit

We issued unqualified auditor's reports on the financial statements of the six health regions and two provincial boards we audit. See Scope on page 225 of our report for a list of these entities.

3.2.3 Unqualified auditor's opinions issued on the three Health Regions we don't audit

The financial statements of three Health Regions that we don't audit received unqualified auditor's opinions from their appointed auditor.

Human Resources and Employment

Summary: what we found in our audits

Systems

The Department should ensure the contract management administration system meets user and management requirements—see page 239.

Performance reporting

The auditor's report on the financial statements of the Ministry was unqualified and we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Performance reporting—Workers' Compensation Board
  Our auditor's report on the financial statements of the WCB for the year ended December 31, 2004 is unqualified. Also, we found no exceptions when we completed specified auditing procedures on the WCB's performance measures included in their Accountability Framework. We also issued an unqualified auditor's opinion on the Schedule of administrative charges of the WCB for the year ended December 31, 2004.

- Performance reporting—Employee benefit plans
  We issued unqualified auditor's reports on the financial statements of the employee benefit plans listed in section 3.3 of Scope.

Overview of the Ministry

Ministry spent $758 million

During 2004–2005, the Ministry spent $758 million on the following core businesses as described in the 2004–2007 business plan:

	(millions of dollars)
People Investments	421
Skills Investments	268
Workplace Investments	24
Personnel Administration Office	9
Alberta Labour Relations Board	3
Appeals Commission for Workers' Compensation	7
Other	26

Ministry received $260 million

The Ministry received $260 million in 2004–2005, $214 million of which came from the following transfers from the Government of Canada:

	(millions of dollars)
Labour Market Devleopment Agreement Benefits	120
Canada Social Transfer	69
Rehabilitation of Disabled Persons	25

WCB's four strategic themes

The WCB's 2003–2004 strategic plan describes four strategic themes to guide the organization:

- Commitment to fairness
- Focus on return to work
- Leveraging prevention
- Financial stability

WCB's 2004 financial results

WCB's financial results are reported for the calendar year and are not consolidated with the Ministry. Its financial results are summarized as follows:

	(millions of dollars)
Revenue	1,163
Expenses	911
Assets	5,284
Liabilities	4,024
Reserves and fund balance	1,260

For more information on the Ministry and its programs, see its website at www.gov.ab.ca/hre. For more information on WCB and its programs, see its website at www.wcb.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our 2002–2003 recommendation that the Department ensure the new contract management administration system meets user and management requirements.

2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2005 and we completed specified auditing procedures on the Ministry's performance measures. We also audited the March 31, 2005 Labour Market Development Claim and the March 31, 2004 Employability Assistance for People with Disabilities Claim.

3. Other entities that report to Minister

3.1 Systems—Workers' Compensation Board

3.1.1 We audited the reporting that exists for WCB stakeholders to assess performance.

3.1.2 We followed up on our 2002–2003 recommendation that the WCB strengthen controls in its claim management system for economic loss payments.

3.2 Performance reporting—Workers' Compensation Board

We audited the financial statements of the WCB for the year ended December 31, 2004 and we completed specified auditing procedures on the WCB's performance measures included in their Accountability Framework. We also audited the Schedule of administrative charges of the WCB for the year ended December 31, 2004.

3.3 Performance reporting—Employee benefit plans

We audited the financial statements of the following employee benefit plans under the administration of the Ministry:

- Long Term Disability Income Continuance Plan–Bargaining Unit and Long Term Disability Income Continuance Plan–Management, Opted Out and Excluded for the year ended March 31, 2005
- Government of Alberta Dental Plan Trust for the year ended December 31, 2004
- Government Employees' Extended Medical Benefits Plan Trust for the year ended December 31, 2004

Our audit findings and recommendations

1. Systems

1.1 Contract Management Administration System—satisfactory progress

Background

Two years ago, on pages 168–169 of our *2002–2003 Annual Report*, we recommended that the Department ensure the Contract Management Administration System (CMAS) meets user and management requirements. Management agreed with the recommendation and has been actively working to rectify the problems.

Our audit findings

The Department is making satisfactory progress

Last year, the Department was making satisfactory progress implementing this recommendation. This year, to improve the stability and reliability of CMAS, the Department expanded the system's physical capacity to handle information requirements. Management also made CMAS more user-friendly by developing standard contract templates within CMAS and allowing non-standard clauses and contract details to be included in templates outside of CMAS. To further assist users, management upgraded training and provided more help resources.

Approval process strengthened

To mitigate the risk of the "approve all" option being used inadvertently by users trying to approve only their contracts, management introduced multiple levels of independent review within the approval process to verify that the appropriate individual has signed each contract.

Monitoring tool will be in place by September

To completely implement this recommendation, the Department must create reports detailing when contracts are created and approved, and when invoices are paid to help them management monitor contracts in CMAS. The Department has developed a reporting tool to do this and plans to have it in place by the end of September 2005.

2. Performance reporting

The auditor's report on the financial statements of the Ministry was unqualified and we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures. We also issued unqualified auditor's reports on the Ministry's two federal claims.

3. Other entities that report to the Minister

3.1 Systems—Workers' Compensation Board

3.1.1 Aspects of accountability

WCB's performance reporting

On October 6, 2004, we recommended to management that the WCB better describe and make more readily available its performance reporting information to stakeholders. We found that the WCB had all the elements of effective performance reporting that was well understood by management, but improvements could be made in communicating this information to stakeholders.

Improvements made—we will follow up next year

In March 2005, we reported to WCB that it made satisfactory progress. It had developed a high level description of its performance reporting and was planning to incorporate it on the WCB website. WCB has since added certain documents, such as quarterly reporting on performance measures. It is also planning to add financial and budget information. We will follow up these remaining issues in 2006.

3.1.2 Economic loss payments—satisfactory progress

Background

New policies and procedures implemented

On page 213 of our *2003–2004 Annual Report*, we reported satisfactory progress on a *2002–2003* recommendation (page 175) that the WCB strengthen controls in its claim management system for economic loss payments (ELP's).

ELP's are benefits paid when a worker suffers a permanent wage loss as a result of a workplace injury. Establishing the permanency of work restrictions needs to be done after the medical and vocational status of the worker has plateaued. This plateau will vary by injury type and by worker circumstances and can take years to develop.

The Quality Assurance group completed a review of high dollar ELPs that were established during 2003. Results indicated that there is room for improvement in the entitlement decision of ELP cases.

Our audit findings

The WCB again made satisfactory progress in implementing this recommendation as follows:

- WCB made a policy change to require a review of ELP entitlement and rate setting after the first three years and then annual reviews thereafter. This should allow management the opportunity to identify and account for changes in worker entitlement and earnings over time.
- New ELPs require supervisor and manager review and approval.
- Claims staff and management have completed training and been provided comprehensive tip-sheets, checklists and procedures detailing the adjudication processes that need to be completed prior to implementing an ELP award.
- Monthly reports providing detailed ELP information are distributed to management.

When we completed the follow up of this point in March 2005, the Quality Assurance group was in the process of obtaining management responses to the findings for 2004.

To implement this recommendation, WCB's Quality Assurance group must finalize its review of the 2004 entitlement decisions and management must demonstrate that changes made to the control environment have been effective.

Implications and risks

If the ELP classifications and calculations are not accurate, the WCB may pay inaccurate benefits to injured workers and charge incorrect costs to employers.

3.2 Performance reporting—Workers' Compensation Board

Unqualified opinions and no exceptions

We issued an unqualified auditor's opinion on the financial statements of the WCB for the year ended December 31, 2004. Also, we found no exceptions when we completed specified auditing procedures on the WCB's performance measures included in their Accountability Framework. We also issued an unqualified auditor's opinion on the Schedule of administrative charges of the WCB for the year ended December 31, 2004.

3.3 Performance reporting—Employee benefit plans

Unqualified opinions

We issued unqualified auditor's reports on the financial statements of the employee benefit plans listed in section 3.3 of Scope.

Infrastructure and Transportation

Summary: what we found in our audits

Systems

The Department made satisfactory progress updating its Public Private Partnerships (P3) systems—see page 245.

The Department should improve the management of the government's air fleet by:

- completing a program assessment to ensure operations match user needs,
- strengthening booking procedures and communication of the program to users, and
- regularly reporting air fleet usage details to the public—see page 252.

Performance reporting

Our auditor's report on the Ministry's financial statements is unqualified. We found no exceptions when we completed the specified auditing procedures on the Ministry's performance measures

Other audit

We issued an unqualified opinion on the annual summary of eligible expenditures of the Canada-Alberta Strategic Highway Infrastructure Program for the year ended March 31, 2005. We performed the audit because the agreement with the federal government requires that eligible expenditures under the program be audited annually.

Overview of the Ministry

The Ministry has five core businesses:

Five core businesses

- Manage provincial transportation safety programs
- Plan, develop and manage government-owned infrastructure
- Partner with municipalities and boards to plan, develop and implement infrastructure that meets local needs
- Represent Alberta's interest in transportation policy
- Provide strategic services to government ministries, boards and agencies

Ministry spent $3 billion

In 2004–2005, the Ministry spent approximately $3 billion on the following:

	(millions of dollars)
Education, health and seniors lodges	1,445
Provincial highway systems and safety	637
Municipal support program	382
Infrastructure operation, preservation and expansion	359
Energy rebates	276

Ministry received $91 million

The Ministry's revenue from sources external to the government in 2004–2005 was $91 million.

For more detail on the Ministry, visit its website at www.infra.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous year's recommendation on improving the processes used to identify and approve P3s.

   We audited the Department's systems to determine whether the air fleet is used efficiently, economically, and within policies established by the government.

   We followed up our previous years' recommendations on monitoring construction grants, updating the capital asset policy for post-secondary institutions, licensing and monitoring processes in the commercial vehicle inspection program and motor vehicle inspection program and ensuring physical security of government buildings.

2. Performance reporting

   We audited the Ministry's financial statements for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

3. Other audit

   We audited the annual summary of eligible expenditures of the Canada-Alberta Strategic Highway Program for the year ended March 31, 2005.

Our audit findings and recommendations

1. Systems

1.1 Public Private Partnerships (P3s)—satisfactory progress

Introduction

We followed up the Department's work to implement the six-part recommendation on P3s that we made last year. We also finished auditing the criteria that we could not complete last year for the Edmonton Southeast Ring Road and the Calgary Courts Centre.

For the Ring Road, we examined the contract between the Department and the successful P3 consortium and compared the contract with the request for proposal and business case for consistency. We also finalized our examination of the public-sector comparator, which is a cost estimate of the project without using a P3, and reviewed the use of the shadow bid. Finally, we reviewed how the Department communicated information to the public.

For the Centre, we compared the request for proposal and contracts to the business case for consistency, and we checked that the final deal incorporated a plan to manage identified risks. We also reviewed the use of the shadow bid. Finally, we reviewed the change in the procurement method on April 27th 2004 from using a private party to own and finance the construction of the buildings, to a more traditional model where the Department owns the buildings and pays for the costs of the buildings at construction.

Background

In our *2003–2004 Annual Report* (No. 2—page 63), we recommended that the Departments of Infrastructure and Transportation, as the Co-Chairs of the Deputy Minister Capital Planning Committee, work with the Department of Finance and other departments to:

- improve the definition of a P3
- determine key prerequisites to identify projects most suitable for P3s
- define when differences in key processes are appropriate
- improve the timeliness of information and the overall analysis of alternatives to decision makers
- define what constitutes a significant change in project scope
- evaluate transparency and accountability of P3s (*2003–2004 Annual Report*, No. 7—page 63)

P3s continue to be an option for capital asset acquisition and service delivery in the province. In general, the following characteristics are associated with a P3. The government body and the private sector have:

- a long-term contractual arrangement
- a sharing of risks and rewards
- a joint investment
- clearly assigned responsibilities
- a model of delegated authority and control

In Alberta, the definition of P3s needs improvement, as noted in part one of our recommendation. The definition is important as it will guide the processes needed for approval.

Our recommendation was accepted last year and referred to the Deputy Minister Capital Planning Committee to provide a detailed timeline for implementation. The Committee is currently reviewing the entire capital planning process, including the use of P3s. The Departments have since merged into the Department of Infrastructure and Transportation. To date, the committee has not yet provided us with the timeline for implementation.

Criteria: the standards we used for our audit

Six criteria P3 should meet

1. The business case and P3 procurement processes should be sound and objective.
2. The business case assumptions and analysis should be complete and reasonable.
3. The P3 should transfer risk effectively.
4. A suitable process should be in place to assess the private partner's qualifications and capabilities.
5. The business case, request for proposal and contract should be consistent. A process should be in place to ensure the business case is updated for significant changes in scope.
6. The P3 procurement process should be sufficiently transparent.

Our audit findings

Satisfactory progress. P3 can still be used even though processes need updating

Progress implementing the six-part recommendation—The Department made satisfactory progress updating its P3 systems. The Department needs to make significant progress next year because P3s continue to be an option for capital assets and services. Below are examples of the current P3 activity:

- The government's 2005-2008 budget includes $9.2 billion in capital spending, including $1.3 billion in alternative capital financing projects. P3s are the only current form of alternative capital financing projects that are being used, although others are being considered.
- Regional health authorities continue to use P3s as a way to provide long-term care services.
- Management told us that other P3s are being considered, but none are

at the Opportunity Paper stage, which is the first step in the process to approve a project as a P3.

Department needs strong processes to guide various parties considering P3s

P3s are complex in structure and not all ministries and other organizations that rely on government to support their infrastructure needs will have the necessary experience, knowledge, and personnel to properly evaluate the P3 alternative. The Department's systems need to help other ministries and supported infrastructure organizations to properly identify potential P3 candidates, evaluate a P3 versus the public-sector comparator, and monitor the P3 arrangement. The three main types of supported infrastructure organizations are regional health authorities, post-secondary institutions, and school boards.

At the request of one regional health authority, we shared information on what we learned from our P3 audit last year, since this authority was currently considering a P3 for a long-term care facility. We reviewed an approval letter from 2003 from the former Department of Infrastructure to this authority that approved a long-term care facility to be constructed as a P3. The Department completed a P3 evaluation study for long-term care facilities in March 2003, showing that a P3 could compare favourably to the public-sector comparator. However, management told us, and we agreed that it was more a feasibility study to show P3s as a viable option, as opposed to a business case required under the draft *Alternative Capital Financing Guidelines*.

Review of capital planning process is ongoing

The Department is not planning to change the P3 systems until the Committee finishes its review of the capital planning process. However, a special task group has reviewed changes needed to the draft alternative capital financing guidelines. These guidelines set out the processes to approve P3s. The results of the task group's work will only be apparent when the revised guidelines are approved and released. For the Department to make satisfactory progress next year, the Committee needs to have a detailed timeline for implementation of all six parts of the recommendation.

Findings on criteria we didn't finish examining last year

Additional findings for Ring Road and Centre support last years recommendation

Edmonton Southeast Ring Road and Calgary Courts Centre—This year's findings provide further support for part four of the recommendation that we made last year, to improve the timeliness of information and overall analysis of alternatives to decision makers. Our additional findings come from our review of the final public-sector comparator for the Ring Road and the use of shadow bids for both the Ring Road and Centre.

Improving the public-sector comparator—The public-sector comparator represents the cost of a project by using the traditional government process of financing and owning a capital project directly, as opposed to using a P3. The Department's calculation of the public-sector comparator includes an amount for lost benefits, in order to make a fair comparison between the public-sector comparator and P3.

Ring Road analysis improved by using a range of costs for public sector comparator

For the Ring Road, the Department improved the public sector comparator, as compared to the Centre, by using a range of costs as opposed to a single most likely cost (point estimate). This is an improvement as the public sector comparator point estimate can be significantly different than the actual cost, depending on such factors as material costs, labour costs, etc. Calculating a range provides useful information on risks to decision makers, such as what is the high end of the range of costs that can occur if material and labour prices go up.

Improvements needed in the calculation of the range

The Department could have improved the calculation of the range of the public sector comparator. The Department's normal practice for transportation projects is to estimate the cost based on detailed engineering data and then produce an expected range by taking plus and minus 10%. The range for the Ring Road, however, was calculated differently. First, the Department used preliminary engineering data, which is far less precise than the detailed engineering data. The Department used preliminary design data instead detailed design data to allow the private parties to be innovative in the detailed designs. Management told us that costs could vary by much greater than 10% based on preliminary data. Second, the Department used two approaches to calculate the ranges. The first approach was to calculate a range by using a statistical simulation tool (Monte Carlo Simulation). The second approach was to calculate the range by using the point estimate from the simulation and then using the normal practise of taking plus or minus 10%.

The point estimate was calculated to be $452.6 million. The two approaches produced similar ranges for the public-sector comparator. The cost of the P3 was $493.2 million, just inside the plus or minus 10% upper range of $497.8 million, and just outside the simulation upper range of $487.3 million.

Based on updated analysis, a new point estimate was calculated for the public-sector comparator

The Department's updated analysis of the range of costs in the public-sector comparator after the initial business case showed that both the point estimate and the upper end of the ranges were low. Based on the updated analysis, the Department produced a public-sector comparator point estimate of $502.1 million. The upper ends of the ranges were never adjusted, but the Department noted the qualitative benefits of cost certainty in an inflationary capital environment, such as Alberta has today. The two most significant reasons the Department gave for the initial public-sector comparator ranges being low were:

2 main reasons initial ranges were understated

1. An understatement of costs and benefits associated with the Ring Road taking longer to build by not using a P3.
2. An understatement of some operating and maintenance costs of the Ring Road over the first 30 years of operation.

Improvements needed for future projects

To provide a better public-sector comparator in the initial business case for future projects, the Department needs to determine the appropriate amount of design information that is necessary. The Department then needs to develop a reasonable range of costs based on the precision of the design information. The normal practise of taking plus or minus 10% may not be sufficient.

Use of shadow bids needs defining

Defining when a shadow bid is appropriate—The Department should document when and how it plans to use shadow bids in the P3 process. The draft guidelines do not communicate the expected use of shadow bids in evaluating P3s. A shadow bid is typically a bid prepared by a contractor not eligible to bid on the contract that is hired by the Department to test the validity of costs and assumptions in an actual bid.

Inconsistencies in use of shadow bids

We noted inconsistencies in the way shadow bids were used for the two projects. For the Calgary Courts Centre, the shadow bid was done by an outside contractor for construction costs and was completed before selection of the final P3 consortium. For the Edmonton Southeast Ring Road, the previous Department of Transportation prepared its own shadow bid on both construction and operating and maintenance costs, but discontinued the process in mid-2004 as it was basically developed from the public-sector comparator. Therefore, the Department decided it did not add value.

Possible use of shadow bids

A shadow bid may be useful, for example, when the Department:

1. has little or no direct experience with a similar project.
2. has narrowed its selection to a single contractor and a significant change in scope occurs.
3. has received a limited number of bids on a contract.

Implications and risks

Ministries and supported infrastructure organizations may pay too much for future capital asset acquisition and service delivery.

1.2 Overview of the Air Transportation Services Branch and our audit

Air Transportation program assessment

We interviewed two long-time employees of the Air Transportation Services Branch (ATS) to obtain a history of the program. The dates in our report are approximate because ATS history has not been formally documented before.

ATS's role has changed over time

ATS was established in the early-to-mid 1970s. Before that, some government departments owned and operated their own aircraft. ATS has transported elected officials and government staff throughout its history, however, its role has changed since the 1970s. Before the fleet was reduced to its current compliment of four aircraft in the mid-1990's, most of its flights supported forestry and wildlife programs. Since then ATS has been used primarily to transport elected officials and government employees and it is sometimes used for emergencies. The government has also used the private sector to operate government-owned helicopters and water bombers.

ATS operates two seven-passenger King Air 200s purchased in 1980 and 1981 for $1.8 million and $2.1 million respectively and a nine-passenger King Air 350 purchased in 1997 for $5.7 million. These aircraft have a pressurized cabin and turbo-prop engine similar to a jet of the same size. The King Airs can land on short strips that are typically found throughout Alberta, more readily than a jet of the same size. ATS also operates a thirty-six-seat Dash-8 purchased in 1985 for $6.9 million.

The operating cost of the ATS was approximately $4 million in 2004–2005. The Government of Alberta also spent $5.7 million on in-province air fare for elected officials and government staff for the same year. Most of ATS's operating costs are fixed, including staff salaries and the cost of the planes and replacement and upgrade of major components such as the engines and navigation systems. The main variable costs are for fuel, maintenance, and airport landing fees. The relatively fixed nature of the costs means that the cost of the program does not increase in the same proportion to the number of flights within the fleet's capacity.

About our audit

Our audit objective was to examine the systems of the Department of Infrastructure and Transportation and user departments that management uses to determine whether the fleet is used efficiently, economically, and within policies established by the government. We recognize that the efficiency and economy of the program cannot be objectively assessed without also considering the fact that certain users may need a level of safety, security, confidentiality, and timeliness that commercial and charter air services cannot provide.

Summary of our work and findings

We interviewed executive management from 10 user departments to obtain feedback about the ATS. Users consistently complimented the high-level of service they received from the ATS. Users indicated that ATS was cost effective when travelling to more remote parts of the province. Some users also indicated that ATS was not cost effective for departmental staff travelling in groups of 1-2 and to Calgary. However, users noted it may be cost effective for the highest level of management and elected officials whose schedules are routinely fully booked with meetings throughout the province.

We randomly selected a representative sample of 120 flights from the last 5 fiscal years to test whether the flight logs agree to the database and test that flights were properly approved. We did not detect any exceptions.

We then used audit software to examine the fleet's use for the last 5 years. A few of our observations are:

- 90–95% of ATS flights have been within Alberta
- Use as measured by the number of flights and passengers of the fleet has remained relatively constant except for noticeable increases in the use of the Dash-8 in fiscal 2002 and King Airs in fiscal 2004.
  - The King Airs have flown the equivalent of 70–90% of available workdays while the Dash 8 has flown the equivalent of 45% of available workdays.
  - The 9-passenger King Air 350 has averaged 4 passengers per leg, the 7-passenger King Air 200s have averaged 3 passengers per leg, and the 36-passenger Dash-8 has averaged 16 passengers per leg.

We also used audit software to search for every instance in the last five years (9384 flight legs) where two planes flew to the same location within an hour of each other to test whether flights could be scheduled more efficiently. We found 92 such cases and sampled 30 to obtain further information on whether these flights could have been combined. We found only two flights that ATS staff agreed could have been combined. We concluded that these instances were atypical in the scheduling process.

Recommendation No. 35

Program assessment

We recommend that the Department of Infrastructure and Transportation complete and maintain a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objectives, user needs, and use policies.

Background

The Department's business plan states its goal for this program is to manage the government's aircraft fleet to ensure delivery of safe, efficient, and cost-effective air transportation. As noted in the History section above, the role of the ATS has changed over the last 30 years. Changes have included reducing the number of aircraft and changing the configuration of the fleet.

When we started our audit, the Department was already planning to prepare a program assessment of the ATS. We understand that the program assessment will be completed shortly. The Department is waiting for our final report before finishing its assessment to ensure it covers our recommendations.

Criteria the standards we used for our audit

The control environment should include:

- clearly defined responsibility and accountability for the use, operation, and ongoing evaluation of the air fleet program.
- program objectives for the air fleet program, which should be established, periodically reviewed for ongoing relevance, and incorporated into a program assessment.
- a regular program assessment, which includes an overall cost-benefit analysis of the program in meeting program objectives.
- policies governing the operation and use of the fleet aircraft, which should be established and communicated. The policies should specifically state what use of the fleet aircraft is appropriate and by whom.

Our audit findings

A formal program evaluation should be performed

Management could not give us sufficient evidence that a structured formal program assessment and ongoing evaluation has been used in the past to manage the ATS. Today, a structured formal analysis and assessment of the decision to directly operate, contract-out, or charter from the private sector would be a best practice but we cannot verify that such an analysis and supporting assessment was prepared in the past for all of the changes that have been made to ATS. An ongoing program assessment should also analyze how the program's operations and fleet aircraft align with user needs and use policies and should contain a business case for new acquisitions.

Aircraft may not meet user needs

Configuration of the fleet and user needs—the current and past use policy lists emergencies including forest fire support as the first priority for fleet use. However, when we met with staff from the department responsible for forest fire management, Sustainable Resource Development (SRD), they indicated that they do not rely on the ATS. While the Dash-8 is sometimes used to transport fire fighting crews, they primarily use other alternatives. Specifically, the improvement of roads in more remote areas of the province allows them to bus large crews instead of flying them. SRD has also contracted with the private sector to ensure 23 aircraft are available during forest fire season. They also indicated that they can and have reliably chartered planes equivalent in size to the Dash-8 from private sector operators and therefore are using the private sector. The program assessment should clearly state what role the fleet has for emergencies and how the fleet supports that role.

Occasionally, the ATS flies across the continent. While the King Airs appear to be well-suited for in-province travel, a program assessment should consider whether other aircraft or travel alternatives are more suitable for longer trips from a safety and efficiency point of view as well as cost. In discussion with management, we also learned that significant improvements in technology to improve the safety of aircraft travel have occurred since the King Air 200s were purchased. These planes are 25 years old and will either require replacement or significant refurbishment in the near future to provide the same level of safety available in modern aircraft to passengers.

Approximately half of the flights are between Edmonton and Calgary

Edmonton-to-Calgary flights—analysis of the costs and benefits of ATS travel between Edmonton and Calgary within the overall program assessment would be useful because this route accounts for approximately half of all flights and there are many other air travel alternatives for this route. While the cost of flights can be calculated, it is more difficult to quantify the benefits of the additional safety, security, confidentiality, and time savings for elected officials and government staff using the ATS. The user departments we interviewed indicated that most of the time the benefits of using the ATS for travel to Calgary did not exceed the costs relative to other alternatives. However, they noted most of their travel can be planned in advance and that their schedules would typically be more accommodating than that of a minister.

The Department of Energy (Energy) is the most frequent user of the Dash-8. A significant part of their business requires their staff to fly from Edmonton to Calgary weekly. Also, Energy books the ATS Dash-8 to operate a weekly shuttle between Edmonton and Calgary. Energy has prepared an analysis to support their use of the Dash-8 and finds that the time savings and ability for all of their staff to travel together efficient. However, Energy expects that in a few years its business will not require substantial travel to Calgary. The Dash-8 is also used to provide a weekly shuttle to MLAs traveling between Edmonton and Calgary when the Legislature is in session.

Clarifying the use policy—The Department of Infrastructure & Transportation implemented an *Aircraft Policy* in January 2005. This policy lists eligible passengers in order of priority as:

1. persons responding to an emergency or disaster (including forest fire)
2. the Lieutenant Governor
3. the Premier
4. members of Executive Council
5. employees of a government department, agency, committee, and other persons authorized by the Minister responsible

We understand that prior to January 2005 there was no formal policy. However, two other documents were used for guidance. The first document, titled *Priorities for Aircraft Use,* accompanies the current aircraft request form that users complete to request a flight. The form also indicates who eligible passengers are and is essentially the same as the new policy. The second document, titled *Guidelines for use of Government Aircraft,* does not accompany each Aircraft request form. This document indicates that aircraft are available to Executive Council for Ministerial duties, and that family members may not travel on government aircraft unless it is a minister's spouse invited to an event.

Use policy could be more specific

The January 2005 policy and other documents that accompany the Aircraft request form could be more specific on who can use the aircraft and for what purpose. The policy does not specifically state when or if the aircraft can be used for government or ministerial business versus MLA constituency or political party business. The policy does state that invited guests are eligible to travel on the aircraft. For example, we found many instances where ministers' spouses flew on the aircraft. The policy would be a more effective control if it specifically stated when use by other MLAs, relatives and associates of MLAs or government employees, and other private citizens is appropriate. The *Guidelines* document that was used before the January 2005 policy was developed does cover most of these issues except for use by private citizens. However, the *Guidelines* do not appear to be communicated as widely and do not have the same authority as the current *Policy*.

Implications and risks if recommendation not implemented

Decisions to expand, contract-out, or directly operate the fleet may not meet user needs or yield the most cost effective program delivery model.

The fleet may be used inappropriately, if the Department does not specify in the *Aircraft Policy* the eligible purposes and passengers for fleet use and communicate the *Policy* to all users.

Recommendation

Booking procedures

We recommend that the Department of Infrastructure and Transportation improve air fleet booking procedures and communication about the program to users.

Background

The service provided by the ATS is not directly comparable to other travel alternatives, including commercial flights and private charter flights. Across government, there are many potential users with differing needs. To choose the best travel alternative, they need information about cost and about qualitative factors such as safety, security, confidentiality, and timeliness.

ATS will book a charter flight for users if all their aircraft are unavailable and the user approves the charter. Alternatively, users can book their own charters. ATS records charters that it books in its flight information database, but not charters that are booked directly by departments.

ATS uses an application developed in-house to schedule, plan, and record data for flights. This is the database where information about actual flights is recorded in the format of a Flight Data Sheet, commonly referred to as a flight log. The flight log includes information about where the aircraft flew on each leg of the flight, who the passengers were for each leg, as well as dates and times of the flight. Each flight and leg of a flight is assigned a sequential number, recorded in the database.

Criteria: the standards we used for our audit

Policies should require users to evaluate the cost of travel alternatives and weigh them against the need for safe, secure, timely, and confidential travel. The evaluation should be documented and approved.

Costing and inter-department transfer pricing systems should be complete and accurate to support appropriate cost-benefit analysis.

Our audit findings

Aircraft utilization could be increased with better communication

Communicating information to users to improve effectiveness and efficiency—some departmental users would appreciate more communication from the ATS as to when it is appropriate for departmental staff to use the fleet. Many departmental staff do not consider ATS as a travel alternative because of a cultural belief that the fleet is for ministers—despite what is already communicated in the policy. Some were discouraged from using the ATS because of the perceived risk that they would have to make other travel arrangements on short notice if a higher priority user needed the aircraft that they booked. ATS stated that this risk is low because it occurs so rarely; nevertheless, these rare occurrences have created a perception amongst users that may negatively impact utilization. Two departments indicated that this had happened to them in the past. They identified the risk that staff may be using less efficient alternatives than the fleet.

Users also said that improving the communication of when seats are available on flights already scheduled would make it is easier for them to use ATS. ATS operates a government intranet website that includes information about scheduled flights. Users can view the website and call ATS to find out if there is room on a particular flight and ask to be added. ATS could improve the website by providing real-time updates of availability and allowing users to book flights online, without phoning.

ATS could provide better information to users to help them make good travel decisions. The *Aircraft Policy* does not require users to evaluate the cost of travel alternatives against the benefits. However, user departments that we interviewed indicated that they do perform such analysis informally and ATS staff does provide information about costs to users on an ad hoc basis.

Analysis of costs and benefits could be improved

An analysis of the costs and benefits compared to other alternatives for a sample of typical ATS flights prepared by ATS could provide useful information to users making travel decisions. Historically, the Department has not done a detailed cost analysis for each type of aircraft they operate for typical routes and passengers to be able to give relevant cost information to user departments. Some of the ones we interviewed indicated that they thought the cost of using the planes is significantly higher than commercial flights or about the same as a private sector charter, and therefore, thought ATS would not be cost effective for their staff. However, the variable cost, which is the relevant cost to use for internal decision making when utilization is below capacity, of flying a King Air may not be significantly different from the cost of commercial travel and may be cheaper than private sector charters.

From discussion with ATS management, we learned that a corporate fleet industry association has developed a software tool to compare the cost of corporate aircraft flights against the quantitative and qualitative benefits. This software is one option that the Department could use to provide information to users.

No cross-government coordination of charter flights

Coordination of charter flights—there is no cross-government coordination of charter flights. The cost of chartering a King Air or similar sized aircraft from the private sector is more than the variable cost of flying the government-owned King Airs. Therefore, from a government-wide perspective, it is cheaper for the government to use its own aircraft if one is available rather than charter a plane and leave the government aircraft idle. Although it is not routine, some departments have directly chartered planes in the past. User departments require approval of ATS flights at the deputy minister level since policy required this for ATS flights. In some cases, authority has been delegated to assistant deputy ministers. However, in most departments that we interviewed charter flights can be approved at lower levels. Some users may choose to charter a flight rather than use ATS because of the difference in approval levels.

ATS can provide a coordination service for all government charters. ATS staff indicated that typically, they call for quotes when hiring charters; however, they could not provide support that they got quotes from more than one company for the charters that we tested. ATS has not tendered for charter flights, nor does it have a standing contract for them. The Department of Sustainable Resource Development has experience chartering aircraft because it charters aircraft extensively for its forest fire management programs. They indicated that they have been able to negotiate better rates and availability with operators than would be available if each flight was chartered separately. ATS could implement a similar process so that central coordination of charter flights could reduce the overall cost to government.

Logged flights can be deleted

Completeness of data in the flight information system—flights and logs can be deleted from the database. If the flight has been "logged," any changes or deletions to the flight or leg data are saved in a separate table of the database. However if a flight or leg is deleted before it is "logged," the deletion is not recorded in the audit table and the information is gone.

We checked the sequence of flight and leg numbers and detected gaps in that sequence indicating that the database may be incomplete. ATS staff told us that there can be valid reasons for deleting flight information, such as when a flight was scheduled but later cancelled. Also, ATS staff sometimes use the database to generate an estimate of the cost of a flight and later delete it if the user does not proceed. However, a flight could occur and be deleted from the database before being logged, without a valid reason for doing so.

To obtain assurance over the completeness of information from the flight information system that we used to perform our analysis, we traced a large sample of flights from the aircraft journey logs to the database. We did not detect any cases where a flight recorded in the journey log was not also recorded in the flight logs. This test gave us a high level of assurance that the database information we used for our analysis and testing is complete. However, removing the option of deleting flights from the database would improve the system.

Implications and risks if recommendation not implemented

Without a system to provide better information to support cost-benefit analysis for travel decisions, users may make inefficient or cost-ineffective travel decisions

Recommendation No. 36

Public reporting

We recommend that the Department of Infrastructure and Transportation publicly report fleet use details permitted to be disclosed by the *Freedom of Information and Privacy Act*.

Background

The most frequent users of the fleet are members of Executive Council. Review and approval controls that can be effective for preventing misuse of public resources may not function as effectively for people in the highest level of an organization. Effective control and oversight of their activities is supported by transparency and public accountability.

Criteria: the standard we used for our audit

To help ensure accountability for use of the fleet, sufficient information should be made publicly available to show that the fleet was used in accordance with policy. Also, fleet use should meet the objectives of the fleet.

Our audit findings
Under both the current and former ministers responsible for ATS, an oversight process was and is in place to review ministerial flight requests to determine if they are in accordance with policy. However, to help ensure accountability for use of the fleet, sufficient information should be made publicly available to show that the fleet was used in accordance with policy.

The Department could consider a number of different options. ATS users that we interviewed indicated reasonable concerns about disclosing who they were going to meet with and why. Disclosure could cause inefficient behaviour if potential users avoid ATS in favour of other travel alternatives that do not require disclosure.

Balancing transparency and privacy is a challenge

We understand that the Department is considering ongoing periodic reporting of all flights. We recognize that the Department is challenged to meet the need to provide information to the public about the use of government resources while also protecting the confidentiality of government dealings where disclosure could undermine those dealings. Nevertheless, enhanced transparency for fleet use would strengthen the process and improve accountability. In the past, the Department did not allow the public to view Flight Data Sheets (Flight logs) without making a FOIP request. The FOIP process can consume a lot of time and resources—for both the public and the department staff who must review the logs for each request. A periodic reporting process could be more efficient for both the public and department staff, while still protecting personal information.

Implications and risks if recommendation not implemented
Without public disclosure, executive-level users may not follow the fleet use policy.

1.3 Construction grants

1.3.1 Terms and conditions of construction grants—satisfactory progress

Background
On page 218 of our *2003–2004 Annual Report*, we reported satisfactory progress on a recommendation made in our *2002–2003 Annual Report* (No. 26—page 181) that the Department of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. The terms and conditions should include:

- an accountability framework, including roles and responsibilities
- the consequences of failing to adhere to the terms and conditions
- reporting requirements
- the Department's right to audit

The Department provides construction grants to school jurisdictions, regional health authorities and post-secondary institutions.

Criteria: the standards we used for our audit

Agreements between the Department and grant recipients should:

- establish terms and conditions
- clearly define recipient's roles and responsibilities
- establish adequate levels of accountability without unduly constraining the flexibility of recipients to optimize the use of their resources
- specify the consequences of failing to adhere to grant conditions
- include reporting requirements
- include repayment procedures if the recipients default
- include the Department's right to audit

Our audit findings

Implementing this recommendation is a necessary step in implementing the following two recommendations related to construction grants.

Agreements for authorities and institutions drafted

The Department made satisfactory progress by drafting agreements for authorities and institutions based on the school board agreement. However, input from authorities and institutions has not yet been obtained and all three agreements have yet to be approved internally. Management anticipates that the draft agreement for school boards will be approved in the fall of 2005 and that the agreements for authorities and institutions will be completed and implemented by the end of fiscal 2005–2006.

Continued drafting the authorities and institutions manuals

The Department continued drafting manuals for use by authorities and institutions and intends on making the grants conditional on compliance with these manuals and the Contracting Directive. Management now anticipates that the manuals for authorities and institutions will be completed and by the end of the 2006–2007 fiscal year.

To finish implementing the recommendation, the Department must:

- Obtain final approval of the draft grant agreement for school boards and have put it into practice.
- Complete draft grant agreements for health authorities and post-secondary institutions, obtain final approval and have put them into practice.
- Complete draft manuals for health authorities and post-secondary institutions, obtain final approval and have put them into practice.

Implications and risks if recommendation not implemented

Lack of terms and conditions in agreements reduces accountability of grant recipients. Grant recipients may not build capital projects according to the Department's standards and requirements. The Department may therefore not receive value for money on capital projects.

1.3.2 Monitoring of construction grants—satisfactory progress

Background

On page 219 of our *2003–2004 Annual Report*, we reported satisfactory progress on the recommendation made in our *2002–2003 Annual Report* (No. 27—page 182) that the Department of Infrastructure strengthen its monitoring processes for construction grants and make all construction grant payments through the Consolidated Cash Investment Trust Fund (CCITF) bank account.

Criteria: the standards we used for our audit

To adequately monitor construction grants, the Department should:

- hold grant recipients accountable for the use of grant funds
- require recipients of multiple instalments to demonstrate continuing eligibility
- assess progress against agreed objectives before releasing instalments
- monitor the use of grants
- ensure grant funds are segregated and adequately protected from loss or misuse

Our audit findings

Improved monitoring of construction grants at PSIs. New agreements will aid monitoring.

The Department has made satisfactory progress by improving its monitoring of construction grants for post-secondary institutions. It has begun evaluating what level of involvement it should have in post-secondary funded capital projects by rating each project. Two improvements are still needed. First, the Department should rate a project based on a formal risk assessment. Right now, Department staff consider risks in their ratings on an ad hoc basis. Second, the Department needs to finalize the draft grant agreement discussed in Section 1.3.1 to aid monitoring efforts. For example, the draft grant agreement will allow the Department access to project plans, financial accounts and other project-related documents.

The Department had undertaken research to determine regulatory or other issues that would impede making grants through the Consolidated Cash Investment Trust Fund (CCITF) bank account but has yet to conclude on the use of these bank accounts. The Department is also considering alternate ways to ensure proper segregation of funds exists, proper monitoring information is available and a sufficient level of return is achieved.

To finish implementing the recommendation, the Department must:

- Develop a grant monitoring policy that includes a risk assessment process to determine the level of monitoring appropriate for a funded capital project and defines the extent of the Department's involvement at each level.
- Complete the draft grant agreement for post-secondary institutions, obtain final approval and put it into practice.
- Conclude on the use of CCITF or an alternate means that will ensure grant funds are segregated and adequately protected from loss or misuse.

Implication and risks if recommendation not implemented

If monitoring processes are inadequate or not complied with, facilities may fail to meet the Department standards and projects may not be cost-effective. Also, grants may not be used for the purpose intended or in accordance with the project approval.

If monitoring processes are not based on risk assessments, then Department resources may not be used in the most cost-effective manner. Also, a lack of documentation may result in the Department being unable to demonstrate it properly monitored grant recipients.

1.3.3 Construction management contracts—satisfactory progress

Background

On page 220 of our *2003–2004 Annual Report*, we reported satisfactory progress on a *2002–2003 Annual Report* recommendation (page 185) that the Department of Infrastructure implement a process to ensure that contracts with construction managers protect the Department's interests as a funder and are cost-effective.

School jurisdictions and regional health authorities use construction managers to provide contract management services during both the design and construction phases of a project. During the construction phase, the construction manager enters into contracts with the sub-trades and assumes the construction and warranty risks of the project.

A draft Contracting Directive outlines the Department's requirements and supplemental information provides guidance on using the construction management project delivery system.

Criteria: the standards we used for our audit

- The contract with construction managers should contain a sound framework for contract management and accountability.
- The risks, roles and responsibilities of the parties should be clearly defined. The contract should identify who bears all significant risks—the contractor or the contracting organization.

Our audit findings

This recommendation cannot be implemented until the draft agreements (page 260) and the Contracting Directive are finalized.

Implications and risks if recommendation not implemented

Grant recipients may suffer losses if construction management contracts do not protect the recipient's interests. Also, the Department may not be receiving value for money.

1.4 Capital Asset Policy

Capital Assets Policy statement—changed circumstances

Background

Previously, we recommended that the Department of Learning, working with the Department of Infrastructure, provide an updated Capital Assets Policy statement to the public post-secondary institutions. We have encouraged post-secondary institutions to develop capital budgeting plans that identify not only the institutions' long-term capital needs but how the institutions plan to fund these needs. Provincial funding practice has varied significantly and audit committees and senior management of several post-secondary institutions have told us that they find it difficult to determine how capital assets will be funded.

Our audit findings

Recommendation no longer relevant

The recommendation is not repeated as it is no longer relevant. The Department is reviewing the entire capital asset process. The current expectation is that institutions, through the capital planning process, will build a business case that defines the appropriate level of funding from both the institution and the government. The Department will prioritize funding requests. This is appropriate, as long as institutions and the Department have a clear understanding of their roles and responsibilities in the capital planning process. We will audit the updated capital planning process at a future date.

1.5 Commercial Vehicle and Motor Vehicle Inspection Programs (Inspection Programs)

Monitoring process for inspection programs—satisfactory progress

Background

On page 301 of our *2003–2004 Annual Report*, we recommended (No. 29) that the Department of Infrastructure and Transportation strengthen its monitoring processes for the inspection programs.

Our audit findings

Policies, and procedures for Investigators

The Department is drafting policies and procedures for Vehicle Safety Investigators to clarify management's expectations and guide them to perform their work consistently. The Department expects to complete these documents during 2005–2006.

Improved process to ensure compliance by facilities and technicians

The Department developed criteria for performance assessment of the inspection facilities and technicians. The Department is developing a risk assessment model and expects to complete during 2005–2006. Those facilities and technicians identified as high-risk are subject to more frequent auditing and monitoring.

Improved process to ensure contract auditors comply with contract

The Department developed performance and reporting criteria for contract auditors. Management will incorporate the criteria into the Request for Proposal and contract for the next contract term, starting January 1, 2006.

Reporting to senior management

The Department is developing the Vehicle Inspection Program system where information on key performance indicators will be maintained. When fully-developed in 2005–2006, the system will flag facilities when they are due for review or other actions, provide reports for the Investigators to evaluate facilities, and for reporting to senior management.

What remains to implement recommendation

To fully implement our recommendation, the Department needs to:

- finalize and implement the policies and procedures for Investigators;
- finish developing and implementing the Vehicle Inspection Program system;
- complete and implement the risk assessment model;
- incorporate performance reporting requirements in the contracts with contract auditors; and
- finish developing and implementing periodic performance and activity reporting to senior management.

Licensing of inspection facilities and technicians—satisfactory progress

Background

On page 303 of our *2003–2004 Annual Report*, we recommended (No. 30) that the Department of Infrastructure and Transportation improve the process to license inspection facilities and technicians.

Our audit findings

New certificate processing procedures and Code of Practice

The Department drafted certificate processing procedures to ensure that the terms and conditions of licensing are clearly communicated to technicians and owners of facilities. They are also required to certify their compliance upon application or renewal of licences. The Department also drafted a Code of Practice for technicians and owners of facilities. The Department is aiming to implement the new certificate processing procedures and the Code during 2005–2006.

Criminal record checks

The Department proposed a Vehicle Inspection Regulation which will authorize it to perform criminal record checks on applicants.
The Department will also draft guidelines on interpreting and applying the results of criminal record checks.

Audits before licences

The Department drafted policies and procedures, and is expecting to implement process in 2005–2006 to audit all facilities before issuing licences to them.

New competency examinations

The Department is working with the Department of Advanced Education to develop continuing competency examinations for all new and renewing applicants and is expecting to implement in 2005–2006.

What remains to implement recommendation

To fully implement our recommendation, the Department needs to:

- finalize and implement new licence application and renewal process, which includes checking criminal records on applicants, and the Code of Practice;
- complete interpretation guidelines for criminal record check;
- finalize and implement policies and procedures to audit all facilities before issuing licences; and
- implement continuing competency examinations for applicants to the Programs.

1.6 Physical security

Physical Security of Government Buildings—satisfactory progress

Background

In our *2002–2003 Annual Report*, we recommended that the Department improve the security of government buildings and the safety of the people who use them. Management accepted our recommendation and indicated they would work towards implementing a more robust system.

Our audit findings

The Department has made satisfactory progress. In the past year, the Department has:

- completed a facility risk assessment on all owned or leased buildings over 1,000 square meters in floor space that are actively managed by the Department.
- developed a model for minimum security standards for multi-client use office facilities together with a cost estimate based on various levels of security.
- through the Security Manager, promoted security awareness through visits to facilities and discussions with tenants.

To fully implement our recommendation, the Department will need to complete security audits on single client use buildings and certain smaller buildings with specific security needs. The Department will also need to develop cost estimates and schedules to bring all buildings to recommended standards.

Innovation and Science

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Science and Research Authority (ASRA), Alberta Research Council (ARC), and iCORE Inc., are unqualified. We found three exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 268.

Other entities that report to the Minister

Our auditor's reports on the financial statements of the Alberta Heritage Foundation for Medical Research (AHFMR), Alberta Foundation for Health Research (AFHR), and Alberta Heritage Foundation for Science and Engineering Research (AHFSER) are unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department and ASRA. ASRA has two wholly owned subsidiaries, ARC and iCORE Inc.

Other entities that report to the Minister

AHFMR, AFHR and AHFSER report through the Minister of Innovation and Science to the Legislative Assembly.

Core businesses

The Ministry's 2004–2007 business plan describes two core businesses:

- Research and Development
- Corporate Information and Communications Technology (this core business was transferred to the Ministry of Restructuring and Government Efficiency—see page 285)

Ministry revenues from external sources were $35 million

In 2004–2005, the Ministry received approximately $35 million from sources external to government, consisting mainly of contract revenue from research and development projects.

Ministry expenses were $197 million

The Ministry's expenses were approximately $197 million, consisting mainly of the following:

	(millions of dollars)
Research and innovation	188
Write-down of discontinued operations	5

For more information on the Ministry, visit its website at www.innovation.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the financial statements of the Ministry, Department, ASRA, ARC and iCORE Inc. for the year ended March 31, 2005. We also applied specified auditing procedures to the performance measures in the Ministry's 2004-2005 annual report.

Other entities that report to the Minister

We audited the financial statements of AHFMR, AFHR and AHFSER for the year ended March 31, 2005.

Our audit findings and recommendations

Performance reporting

3 exceptions found

Our specified auditing procedures report on the Ministry's performance measures includes three exceptions relating to the following measures:

- Ratio of other public and private investments in energy research to Innovation and Science investments in energy research
- Ratio of other public and private investments in information and communications technology (ICT) research to Innovation and Science investments in ICT research and
- Ratio of other public and private investments in life sciences research to Innovation and Science investments in life sciences research

In examining the reported information on a test basis, we found several errors and differences between this information and the source data on which the information is based. We were also not able to rely on the Ministry's internal controls to ensure the underlying data was compiled in accordance with the stated methodology. The Ministry has explained in the Results Analysis section of its annual report that the data reported for the above measures is incomplete and procedures relating to the data for these three measures are being developed and improved.

International and Intergovernmental Relations

Summary: what we found in our audits

Performance reporting

Our auditor's report for the Ministry's financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Three core business

The Ministry's 2004–2007 business plan describes three core businesses:

- Canadian Intergovernmental Relations
- International Relations
- Trade Policy

Ministry spending and funding

In 2004–2005, the Ministry spent $8.2 million. The Ministry receives no revenue from sources external to the government.

For further details about the Ministry, visit its website at www.iir.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our 2002–2003 audit of the systems that the Ministry uses to monitor intergovernmental agreements.

2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures

Our audit findings and recommendations

1. Systems

1.1 Intergovernmental agreements—implemented

Ministry enhanced intergovernmental agreements tracking system

On pages 238–239 of our *2003–2004 Annual Report*, we reported that the Ministry was making satisfactory progress implementing our recommendation to enhance its intergovernmental agreements system. The Ministry has now implemented this recommendation. In May 2005, the Legislature made changes to the *Government Organization Act*. Government entities that fall under the Ministry's intergovernmental agreement review process are now distinctly defined. The Ministry has also developed, and will regularly update, a system to track all intergovernmental agreements.

Justice and Attorney General

Summary: what we found in our audits

Systems

The Ministry still needs to implement a process to ensure that maintenance payments go to the correct recipient—see page 272.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2004–2007 business plan describes four core businesses:

- Prosecutions
- Courts
- Legal and strategic services to government
- Justice services to Albertans in need

Ministry received $120 million

Total revenue for the Ministry was $120 million in 2004–2005. The Ministry's main revenue sources are:

	(millions of dollars)
Fines and related late payment penalties	54
Fees	36
Transfers from the federal government	15

Ministry spent $283 million

The total operating expenses for the Ministry were $283 million in 2004–2005, comprised mainly of:

	(millions of dollars)
Court services	123
Legal services	74
Support for legal aid	32
Motor vehicle accident claims	26
Office of the Public Trustee	9
Medical examiner	6

Ministry manages trust funds

The Ministry manages trust funds of approximately $550 million. This total includes $481 million in trust funds administered by the Office of the Public Trustee, Estates and Trusts.

For more detail on the Ministry, visit its website at www.justice.ab.ca.

Scope: what we did in our audits

1. Systems

We followed up on our previous recommendation to improve the Ministry's system for processing maintenance enforcement payments. We also followed up on our 2000–2001 recommendation on capital asset management.

2. Performance reporting

We audited the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Maintenance Enforcement Program—satisfactory progress

Background

In our *2002–2003 Annual Report* (page 215), we recommended that the Ministry obtain sufficient information from the Ministry of Children's Services to ensure child support payments for children in care are paid to the appropriate party.

Our audit findings

Ministry dealt with 268 files and is developing reconciliation process

The Ministry has made satisfactory progress. The Ministry and the Ministry of Children's Services have dealt with the 268 files identified in previous years where payments may not have been made to the appropriate party. The Ministry is now developing a process to complete reconciliations between its data and data provided by the Ministry of Children's Services to enable the Ministry to ensure child support payments go to the correct recipient.

To finish implementing this recommendation, the Ministry needs to implement a process to perform periodic reconciliations and follow up on matched files identified by the Ministry to ensure the appropriate recipient receives the maintenance payments.

1.2 Capital asset management—implemented

Background

In our *2000–2001 Annual Report* (page 183), we recommended that the Ministry of Justice and Attorney General improve its capital asset management process by completing long-term capital plans and linking this information to the business planning process.

Our audit findings

Long-term capital plan prepared

The Ministry has implemented this recommendation. The Ministry's 2004–2005 capital plan identifies its capital requirements for the next 10 years. The capital plan contains reasonable support for the capital requirements. The Ministry's capital plan also links to the Ministry's core businesses and goals in its business plan.

Municipal Affairs

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2005 is unqualified. However, our auditor's report explained the impact of not including the financial results of the Safety Codes Council in the Ministry's financial statements—see page 280.

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Performance reporting
  Our auditor's reports for the year ended December 31, 2004, on the following financial statements were unqualified:
  - Improvement Districts # 4, 9, 12, 13 and 24
  - Kananaskis Improvement District
  - Special Areas Trust Account

Overview of the Ministry

Four core businesses

The Ministry's 2004-2007 business plan describes four core businesses:

- Local Government Services
- Emergency Management Alberta
- Safety Services and Fire Protection
- Municipal Government Board

Ministry spent $149 million

Ministry expenses for 2004-2005, amounted to $149 million and comprise:

	(millions of dollars)
Local government Services	105
Emergency Management Alberta	33
Safety Services and Fire Protection	8
Municipal Government Board	3

$20 million from external sources

The Ministry received $20 million from external sources.

For more information on the Ministry and its programs, visit its website at www.municipalaffairs.gov.ab.ca

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Scope: what we did in our audits

1. Systems

   We followed up on our previous recommendations on:

   - information technology (IT) management controls
   - Managing for Results
   - municipal property tax assessments
   - business continuity planning

2. Performance reporting

   We audited Emergency Management Alberta's (EMA) systems and processes that are used to prepare, implement and manage the critical infrastructure program. EMA uses these systems and processes to fulfill its responsibilities under the Alberta Counter-Terrorism Crisis Management Plan.

   We audited the financial statements of the Ministry for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

   We audited the following financial statements for the year ended December 31, 2004:

   - Improvement Districts: # 4, 9, 12, 13 and 24
   - Kananaskis Improvement District
   - Special Areas Trust Account

Our audit findings and recommendations

1. Systems

1.1 IT management controls—satisfactory progress

Background

In our *2003–2004 Annual Report* (page 265), we recommended that the Ministry of Municipal Affairs approve its draft security policies, and implement procedures so that only authorized users can access the Ministry's systems and data. We also recommended that the Ministry:

- implement a risk assessment framework to manage IT risks, and

- obtain independent assurance on the outsourced computer general control environment.

Our audit findings

The Ministry made satisfactory progress implementing the recommendation. The Ministry is developing a guideline to:

- classify information stored in the system;
- define policies and procedures to protect the confidentiality, integrity and availability of the stored information;
- define service level requirements with the service providers; and
- monitor compliance with security policies and procedures within the Ministry and its service providers.

The guideline is scheduled to be completed and approved by the Ministry by October 2005. Once the guideline has been approved, to fully implement the recommendation, the Ministry needs to:

- assign security roles and responsibilities, and
- set an implementation timeline for improving security controls; and IT security policy and procedures.

The Ministry also needs to implement a risk assessment framework; and obtain assurance on outsourced environment.

1.2 Managing for Results—implemented

Background

In our *2001–2002 Annual Report* (No. 47—page 225), we reported our audit results on the *Managing for Results* systems that the Ministry used in business planning, human resource management, and performance information.

Our audit findings

The Ministry implemented all our recommendations.

Business planning

Integrating operational planning process—The Ministry established an operational planning process to support strategies in the Ministry business plan.

The Ministry integrates its operational planning processes with individual staff performance plans. It also encourages employees to link individual goals in their performance plans with goals in the Ministry business plan.

Human resource management

Improving process for human resource performance planning and assessment—The Ministry analyzed all employees' performance plans and trained employees on how to improve their performance plans. The Ministry requires that staff performance documents support achievement bonus ratings. The Ministry also changed the annual performance management cycle so that performance assessment is completed in February of each year to match the timing of decisions on achievement bonuses.

The Ministry has incorporated the Alberta Public Service Competency Model into its performance planning system for continuous improvement, learning and development purposes.

Performance information

Reviewing methodology of performance measures—The Ministry finished reviewing the methodology of the performance measures:

- Percentage of municipalities meeting Ministry's criteria of financial accountability; and
- Percentage of assessed accredited municipal entities, corporations, agencies and delegated administrative organizations administering the *Safety Codes Act* that achieve a satisfactory rating.

Management has concluded that the current methodologies on both measures are appropriate, and we agree.

1.3 Municipal property tax assessments—implemented

Background

On page 227 of our *2000–2001 Annual Report* (No. 41), we recommended that the Ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable. Last year, we reported that the Ministry was developing a new system, Assessment Shared Services Environment (ASSET), to resolve deficiencies in the municipal property tax assessment system.

Our audit findings

The Ministry finished implementing our recommendation by using the new system to achieve fair and equitable results:

- The system automatically checks the municipalities' assessment and property information against established specifications, and emails analysis reports to the assessors.
- The Ministry uses the system to perform assessment audit tests on property information, focusing on areas with a higher probability of error, annually instead of only through a detailed assessment audit on each municipality once every five years.
- Because all assessment and property information is now accessible in

one system, the Ministry:

- no longer needs to reconcile the information previously separately provided by both the assessor and the municipality, and
- streamlines the equalization process used to convert property assessments in municipalities to a common level.

1.4 Business continuity planning—implemented

Background

On page 228 of our *2001–2002 Annual Report*, we reported that Emergency Management Alberta (EMA) developed but not yet implemented two processes: one to coordinate cross-government business continuity planning and another to evaluate individual departmental plans.

Our audit findings

During 2002–2003 and 2003–2004, EMA:

- coordinated cross-government business continuity planning by developing a comprehensive business continuity guide, and distributing the guide to all departments; and
- evaluated all departmental business continuity plans and recommended improvements to deputy ministers of the departments.

This year, EMA completed the Government of Alberta Business Continuity Plan. The Plan establishes a cross-government coordination framework to facilitate efficient and effective resumption and recovery of critical functions in the affected departments in response to service disruptions.

1.5 Critical Infrastructure—no recommendation

Background

Critical infrastructure refers to facilities owned or leased by the government and to private-sector facilities which, if disrupted or destroyed, would seriously affect the safety and well being of Albertans.

Our audit findings

We limited our audit scope to EMA's responsibilities for critical infrastructure that government owns or leases. We assessed EMA's systems and processes for:

- establishing criteria for identifying critical infrastructure,
- coordinating and communicating to other departments which critical infrastructure they are responsible for and what they have to do, and
- ensuring confidentiality of information over which EMA has custody.

EMA met the audit criteria and we have no recommendation.

2. Performance reporting

Unqualified opinion

We issued an unqualified opinion on the Ministry's financial statements for the year ended March 31, 2005.

PSAB revised definition of the government reporting entity

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity. Our estimate of the effect on the Ministry's financial statements of expanding its reporting entity would be to increase assets by $7 million and liabilities by $0.4 million.

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

Performance reporting

Financial statements

The audits of the following financial statements for the year ended December 31, 2004 resulted in unqualified opinions:

- Improvement Districts # 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Restructuring and Government Efficiency

Summary: what we found in our audits

Systems

The Ministry needs to clearly define its performance measures and targets, and improve its processes to track and report results—see page 284.

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2005 was unqualified. We did not identify any exceptions when we applied specified auditing procedures to the Ministry's performance measures.

Overview of the Ministry

The government created the Ministry of Restructuring and Government Efficiency by combining the:

- Alberta Corporate Service Centre (the Centre) from the Ministry of Government Services, and
- Corporate Chief Information Officer (CCIO) from the Ministry of Innovation and Science

Three core businesses

The Ministry has three core businesses:

- Shared Services
- Business transformation
- Information and Knowledge Management

Ministry spent $229 million

In 2004–2005, the Ministry spent $229 million, including $177 million on services to government departments.

Ministry received $177 million

The Ministry received $177 million from government departments for delivering services.

For more details on the Ministry, visit its website at www.efficiency.gov.ab.ca.

Scope: what we did in our audits

1. Systems

We followed up on our prior year's recommendations.

2. Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2005. We applied specified auditing procedures on the Ministry's performance measures in its *2004–2005 Annual Report*.

Our audit findings and recommendations

1. Systems

1.1 Contracting policies and procedures—satisfactory progress

Background

2003–2004 recommendation to improve contract policies and procedures

In our *2003–2004 Annual Report* (No. 20—page 177), we recommended that the Centre develop comprehensive contracting policies and procedures, train its staff on how to follow the policies and procedures and monitor staff compliance with the policies and procedures.

Our audit findings

Implemented new contract policies and procedures

The Ministry is making satisfactory progress in improving its contracting systems. The Ministry has implemented new contracting policies and procedures, and established a Contracts Review Committee that reviews the awarding of all sole-sourced contracts and contracts over $25,000 and monitors staff compliance with the policies and procedures. The Ministry has also trained its staff on how to follow the new policies and procedures.

We will review the operating effectiveness of, and adherence to, the policies and procedures in 2005–2006, because the Ministry signed or renewed most of its existing contracts before the new policies and procedures were fully implemented.

1.2 Disclosure of conflict of interest—satisfactory progress

Background

On page 180 of our *2003–2004 Annual Report*, we recommended that the Centre require staff involved in contracting to disclose annually in writing:

- that they understand and agree to follow the Code of Conduct; and
- any potential conflict of interest they may have.

Our audit findings

Contract managers now required to disclose conflict of interest

The Ministry is making satisfactory progress implementing the recommendation. The Ministry assessed the potential risks of conflicts of interest relative to contracting. Under the new contract policy, contract managers are required to sign declarations on each contract to confirm that they don't have a conflict of interest. The Ministry's training sessions on contracting policies and procedures also provided guidance on conflict-of-interest issues.

We will review the operating effectiveness of, and adherence to, the policies next year, because the Ministry signed or renewed most of its existing contracts before they implemented the new policies.

1.3 IT Disaster recovery plan—satisfactory progress

Background

Ministry responsible for government's data centre

The Ministry provides technology and infrastructure services to ministries from both its Calgary and Edmonton data centres. This includes networking, e-mail and internet services for most of government, including the Government of Alberta website. In addition, a number of ministries' applications run on the data centres' mainframe and servers environments.

On page 181 of our *2003–2004 Annual Report*, we recommended that the Centre improve the disaster recovery preparedness of the government data centres by:

- having appropriate recovery facilities and equipment available to resume ministries' critical business systems.
- developing a communication strategy and assigning responsibilities for staff.
- establishing detailed procedures for restoring systems based on ministry priorities.

Our audit findings

Ministry developed disaster recovery plan for critical shared services

The Ministry made satisfactory progress implementing the recommendation. The Ministry has:

- determined the recovery requirements necessary for shared services that are critical for all departments, such as the government's networks, e-mail and internet services;
- developed a disaster recovery plan for these services; and
- developed guidelines that departments should follow to request disaster recovery service capabilities for ministry-specific critical systems.

Still need to update agreements with ministries

To implement the recommendation, the Ministry should update service level agreements with departments to ensure that the Ministry's responsibilities with respect to ministry-specific systems, especially with respect to disaster recovery requirements are clear.

1.4 Performance measures—unsatisfactory progress

Recommendation No. 37

We again recommend that the Ministry of Restructuring and Government Efficiency:

- **clearly define its performance measures and targets, and**
- **develop systems to monitor and report results.**

(*2001–2002*—No. 22, *2002–2003*—No. 20)

Background

Improve performance measurement systems

In our 2001–2002 *Annual Report* (No. 22—page 120) and our 2002–2003 *Annual Report* (No. 20—page 143), we recommended that the Alberta Corporate Service Centre (the Centre) clearly define its performance measures and improve its processes to track and report results.

Criteria: the standards we used for our audit

The Ministry should:

1. clearly define its performance measures and targets and link them to the core businesses and goals of the Ministry.
2. have adequate control systems to ensure that performance information is reliable.
3. report performance results in relation to the business plan.

Our audit findings

Measures still not clearly defined

The Ministry made unsatisfactory progress improving its performance measurement systems. The Ministry did not clearly define the performance measures and methodologies for six measures included in the draft Ministry's 2004–2005 Annual Report. The Ministry is also still developing the systems to monitor and report results for one of these measures.

Measures required restatement

The Ministry is using a template to summarize performance measure information and has developed a review process to ensure the information in the draft annual report is consistent with the performance measure methodology and adequately supported. However, as the methodology for the performance measures noted above was not clearly defined, this review process did not identify the problems with the data for these measures. As a result, these measures required restatement in the draft Annual Report and the results for three measures were zero.

2005–2008 measures

The Ministry 2005–2008 business plan includes two goals for which the ministry plans to develop measures, and the new ministry executive is also reviewing goals and measures for the next business plan. It was not clear from a review of the plan how the measure *Projects aligned to and/or recognized as contributing to the Government of Alberta Enterprise Architecture* would be defined. What would constitute alignment as compared to mandatory compliance with GAEA guidelines is not readily apparent from the description of the measure in the plan.

Implications and risks if recommendation not implemented

Without clearly defined performance measures or adequate performance measurement systems, performance information may be unreliable or lacking and may lead to poor management decisions and poor performance reporting to users.

1.5 Information technology systems operations and controls—satisfactory progress

Background

In our *2001–2002 Annual Report* (page 123), we recommended that the Centre improve controls for the Electronic Payment System and the Expense Claim System. Last year, the government signed a new agreement with an outsourced service provider, which covers the operation and maintenance of IMAGIS, Electronic Payment System and the Expense Claim system.

Our audit findings

Developed new policies and procedures for the Electronic Payment System

The Ministry is making satisfactory progress implementing our recommendation. The Ministry obtained adequate assurance from the service provider on their operations, and developed policies and procedures for access to the Electronic Payment System. The Ministry is drafting policies and procedures for access to the Expense Claim System.

To implement the recommendation, the Ministry must approve and follow the Access Policies and Procedures for the ExClaim system.

1.6 Alberta Supernet funding required—implemented

Last year, we recommended that the CCIO identify funds to be allocated to the quality assurance process of the SuperNet project. The Ministry implemented the recommendation. The Ministry of Finance allocated $1.542 million for the quality assurance process over the next two years. The government and the contractor will share the total cost of the quality assurance process with the government's share not to exceed $1.542 million.

1.7 Alberta government Integrated Management Information System (IMAGIS)

Government's main financial system.

IMAGIS (a customized version of PeopleSoft) is the system that ministries use to process financial transactions, including payments for supplies, services and payroll. It also produces the accounting records that ministries rely on to prepare their financial statements. Alberta Finance uses IMAGIS to prepare the province's consolidated financial statements.

A service provider hosts, operates and maintains IMAGIS under an outsourcing agreement with the Government of Alberta.

The following two points relate to this system.

1.7.1 IMAGIS use—satisfactory progress

Background

10 modules in use

On page 199 of our *2002–2003 Annual Report*, we recommended that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS. Implementation of IMAGIS began in 1997, and by 2001, 10 modules were in use in government. However, other applications were still processing a lot of ministries' business that these ten IMAGIS modules could process.

Our audit findings

Plan developed to improve use

The Ministry is making satisfactory progress by developing a plan to improve existing processes over the next 6 to 18 months. Implementing PeopleSoft components is an ongoing process that will continue as long as PeopleSoft (now Oracle) makes updates available.

Need criteria to evaluate cost-effectiveness of other systems

To finish implementing this recommendation, the Ministry needs to establish, in conjunction with ministries, criteria to evaluate the cost-effectiveness of continuing to operate existing legacy systems when IMAGIS has parallel capabilities.

1.7.2 IMAGIS control environment—implemented

Background

Every year since our *1999–2000 Annual Report*, we have recommended that the government obtain an appropriate level of assurance that external information technology service providers are maintaining effective controls to protect the confidentiality and integrity of the IMAGIS data.

Government obtained independent assurance of control environment

The Ministry implemented the recommendation. Under a new contract, the service provider is required to give the government appropriate assurance on the service provider's general computer environment controls annually. This year, the service provider gave the government independent assurance on the service provider's operations in North and South America and its operations unique to Alberta.

1.8 Government of Alberta central information technology environment

1.8.1 User awareness of information security responsibilities—satisfactory progress

Background

No security program existed

On page 231 of our *2003–2004 Annual Report*, we recommended that the Corporate Chief Information Officer implement a security program for employees who use government technology. The objective of the security awareness training program is to ensure that all users with access to government information and systems understand the key elements of information security, its importance, and their personal information security responsibilities.

Our audit findings

Security program developed. Training will be provided in future

The Ministry is making satisfactory progress implementing the recommendation. The Ministry developed the Government of Alberta Information Security Awareness and Training Program, which received approval from the Information Security Management Committee in June 2005. The program encourages ministries to give employees adequate training to meet job requirements and defines three layers of learning as awareness, training, and education, with each layer building on the next. The program also defines the delivery mechanisms possible, resources available, and methods of measuring success. We expect these resources to be available to the ministries by November 30, 2005 at which time we will consider this recommendation implemented.

1.8.2 Systems development—implemented

Background

Systems development methodology guidelines were needed

In 2001, we recommended that the Ministry of Innovation and Science establish systems development methodology guidelines that ministries can use as a source of reference when any systems development projects are initiated in government for both outsourced and in-house systems development. We repeated the recommendation in our *2001–2002* and *2002–2003 Annual Reports* (*2002–2003*—No. 30).

Our audit findings

Ministry developed guidelines based on international standard

The Ministry implemented the recommendation by ratifying a Software Development Standard (the Standard) that is based on ISO/IEC 12207–Information Technology Software life cycle processes, an internationally accepted standard dealing with software life cycles. ISO/IEC 12207 establishes a common framework for software life cycle processes with well-defined terminology that software developers can reference. It consists primarily of three groups of processes covering the complete life cycle from conceptualizing an idea to retiring the software.

The Ministry also developed a guidebook for applying the Standard in the Government of Alberta environment. This guidebook, together with the implementation assistance accompanying ISO/IEC 12207 will help ministries to implement the Standard. The Ministry will now present the Standard to the Chief Information Officers' Council for acceptance by ministries.

Seniors and Community Supports

Summary: what we found in our audits

Systems

We issued a separate report on the Department's systems to manage seniors care and programs titled the *Report of the Auditor General on Seniors Care and Programs*—an overview of the significant findings and recommendations from this report are in a separate section on page 53.

We are in the process of auditing Alberta Social Housing Corporation's systems for land sales. The results of our audit will be released at a later date.

Performance reporting

Our auditor's reports for the Ministry, Department and Alberta Social Housing Corporation were unqualified—see page 291.

We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 292.

Other entities that report to the Minister

- Performance reporting—PDD Boards
  The financial statements of all Persons with Developmental Disabilities Boards (PDD) had unqualified auditor's reports—see page 296.

Other financial information—cost-sharing claims

- Financial statements
  We issued unqualified auditor's opinions on the cost-sharing claims under the *National Housing Act (Canada)*.

Overview of the Ministry

Four core businesses

The Ministry's 2005–2008 business plan identifies four core businesses:

- providing services, programs and planning for seniors and the aging population
- providing supports, services and planning for persons with disabilities
- supporting the provision and ongoing management of housing for lower-income Albertans
- providing supports to enhance choice and well-being for clients of the Ministry

Ministry received $289 million

The Ministry received $289 million in 2004–2005, $258 million of which came from transfers from the Government of Canada.

Ministry spent $1.4 billion

In 2004–2005, the Ministry spent $1.4 billion, primarily as follows:

	(millions of dollars)
Persona with disabilities	873
Seniors and the aging population	270
Housing and emergency shelter for lower-income Albertans	165

For more information on the Ministry, visit its website at www.seniors.gov.ab.ca.

Scope: what we did in our audits

1. Performance reporting

We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2005.

We followed up on the Ministry's progress implementing our previous recommendations on excluded assets and program objectives and policies.

We completed specified auditing procedures on the Ministry's performance measures.

2. Other entities that report to the Minister

We followed up on the Persons with Developmental Disabilities Provincial Board and the six Community Boards' progress implementing our previous recommendations on contract management systems, including contract policies and monitoring and service provider contract issues.

We also audited the financial statements of the:

- Persons with Developmental Disabilities Provincial Board
- Persons with Developmental Disabilities Northwest Region Community Board
- Persons with Developmental Disabilities Northeast Region Community Board
- Persons with Developmental Disabilities Edmonton Region Community Board

- Persons with Developmental Disabilities Central Region Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities South Region Community Board

3. Other financial information

We audited the 2004–2005 cost-sharing claims under the *National Housing Act (Canada)*.

Our audit findings and recommendations

1. Performance reporting

1.1 Financial statements

Unqualified opinions

Our auditor's reports on the financial statements of the Ministry, Department and Alberta Social Housing Corporation were unqualified.

Non-compliance with legislation

Our auditor's report on the Ministry financial statements contains an information paragraph reporting that expenses include payments made by the six Persons with Developmental Disabilities Community Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation—see page 296.

1.1.1 Excluded assets—implemented

Background

Ministry should record surpluses retained by management organizations

The Ministry uses management organizations, established by Ministerial Orders, to operate and maintain social housing properties that are, in most cases, owned by the Ministry through Alberta Social Housing Corporation. In our *2003–2004 Annual Report* (page 283), we recommended that the Ministry of Seniors and Community Supports record in the Department and Ministry financial statements surpluses for social housing projects that management organizations retain.

Our audit findings

Ministry recorded $21.2 million in surpluses

This year, the Ministry recorded $21.2 million in surplus funds retained by management organizations in its financial statements. As in prior years, the Ministry financial statements include the net revenues of housing properties and the gross revenues and expenses are disclosed in a note to the financial statements. We are satisfied that the recording of revenues, expenses, and surpluses in the financial statements of the Ministry are now in accordance with Canadian generally accepted accounting principles (GAAP).

1.1.2 Program objectives and policies—implemented

Background

Corporation needed to examine objectives and accounting for lodges

In our *2003–2004 Annual Report* (page 284), we recommended that the Corporation review their program objectives for the ownership, enhancement, and disposition of lodges and ensure these objectives are supported by the appropriate business arrangements. We further recommended that any transactions arising from these arrangements be accounted for in accordance with Canadian GAAP.

Our audit findings

Management and accounting for lodges resolved

During the 2004–2005 fiscal year, the Corporation transferred title to management organizations for two lodges totalling $6.3 million, and made a retroactive adjustment to record the remaining three lodges totalling $6.5 million. We are satisfied that the amounts recorded in the financial statements are in accordance with Canadian GAAP and the underlying agreements.

1.2 Performance measures

We found one exception when we completed specified auditing procedures on the Ministry's performance measures.

There was no survey data available for the measure titled, *Satisfaction, by Persons with Developmental Disabilities with PDD-funded services*. Management did not complete the survey because there was a risk of bias in the selection of participants and in the responses given due to the help individuals may have received in filling out the questionnaire.

2. Other entities that report to the Minister

2.1 Systems findings—Persons with Developmental Disabilities Boards contract management systems

Background

Provincial Board establishes policies

Under the *Persons with Developmental Disabilities Community Governance Act* (the *Act*), the Persons with Developmental Disabilities

Provincial Board (the Provincial Board) has a mandate to establish policies for providing services to adults with developmental disabilities and to coordinate, monitor and assess the activities of the six Persons with Developmental Disabilities Community Boards (the Community Boards).

Community Boards provide services

The Community Boards provide services to adults with developmental disabilities primarily by providing funding to service providers which in turn provide services directly to individuals. This occurs through two programs—contract funding and individual funding.

$371.7 million spent on services

In the fiscal year ended March 31, 2005, the Community Boards paid $371.7 million to service providers for services to individuals. The total payments for each funding program were:

- contract funding—$235.6 million
- individual funding—$136.1 million

900 service providers

There are approximately 900 service providers, of which, approximately 100 receive 90% of the funding from the Community Boards.

Substantial work required to implement our prior year recommendations

Last year, our work on the Board's contract management systems led us to make three recommendations in our *2003–2004 Annual Report*. Implementing these recommendations has proved to be a substantial task that has required the Boards to evaluate the way they deliver services. Some significant work has occurred in some areas; while others are in more preliminary stages.

2.1.1 Contract policies and monitoring—satisfactory progress

Background

We recommended in our *2003–2004 Annual Report* that the Provincial Board work with the six Community Boards to update and improve their contracting policies and procedures (page 107), and strengthen the monitoring and evaluation of the performance of their service providers (No. 9—page 111).

Our audit findings

Satisfactory progress

In 2004–2005, the Provincial and Community Boards made satisfactory progress in implementing the recommendations. We observed the following progress:

- In July 2005, the Provincial Board approved a new conflict-of-interest policy for Provincial and Community Board members.

New contract templates

- The Boards have prepared new contract templates that reference a standard dispute resolution process and include a requirement for all service providers receiving contract funding in excess of $100,000 to provide complete audited financial statements. The Boards are now amending contracts for 2005–2006 to incorporate the new clauses.

Service provider contacts

- The Provincial Board has issued a policy outlining the monitoring to be performed when PDD staff are in contact with service providers.

Performance measures

- The Provincial and Community Boards have identified performance measures that will assist in determining if service providers are meeting their contractual obligations.

New contracting policies

- The Provincial Board has drafted new contracting policies. The new policies detail the requirements to be met in preparing business cases, and also include guidance on contractor selection.

To fully implement these recommendations, the Provincial and Community Boards must:

- approve new conflict-of-interest guidelines for PDD staff;
- prepare new agreement templates for individual funding service providers, including adequate financial reporting requirements;
- finalize contracting policies and update manuals, including guidance on preparing business cases and on contractor selection;
- provide appropriate training and support to PDD staff to ensure that the new policies and procedures are successfully implemented; and
- Once the new contracts, funding agreements and related policies are approved by the Provincial and Community Boards, the Community Boards will need to implement them in their regions.

2.1.2 Service provider contract issues—satisfactory progress

Background

Boards need to conduct a risk assessment and audit high risk service providers

Last year, our forensic audit team examined the contract practices of two service providers. In both cases, we found that the Boards were not regularly monitoring, reconciling or recovering excess funding. Excess payments made to the two service providers were estimated at $3.4 million and $191,000. As a result of our findings, we recommended in our *2003-2004 Annual Report* (No. 8—page 107) that the Persons with Developmental Disabilities Provincial Board, in conjunction with the six Community Boards, reduce the risk of service providers breaching contracts by:

- performing a risk assessment of service providers; and
- auditing high-risk service providers to ensure that they spend funding according to their contracts and that they meet the other terms of their contracts.

Our audit findings

Satisfactory progress

The Provincial Board and the Community Boards have made satisfactory progress implementing this recommendation. In 2004–2005, the Provincial Board arranged for the Office of the Chief Internal Auditor (OCIA) to examine the Community Boards' service providers. These examinations compared the funds service providers actually spent on direct care costs to the contract requirements. OCIA performed 67 audits during the summer and fall of 2004, covering $127.6 million in direct care expenditures for both contract and individual funding service providers.

33 service providers met requirements

For 33 service providers, funds spent on direct care either did not vary significantly from contracted amounts or exceeded contracted amounts. This group represented $72.5 million of the direct care funding examined.

34 service providers did not meet requirements

In the other 34 audits, the results indicated that service providers did not meet direct care expenditure requirements in their contracts. The shortfall in direct care services provided by this group totalled $3.2 million or 5.8% of the $55.1 million in direct care funding provided. Management of the Community Boards investigated the variances and determined that:

- $1.7 million of the variance is due to a lack of rigor and clarity in the Board's allocation of funding in contracts between direct care, service delivery and administration. Funds were, however, used for legitimate PDD expenditures.
- $0.4 million of the variance is due to a lack of clarity in PDD policies around such things as which employee benefits are eligible to be covered under direct funding. In these cases, the Community Boards are honoring historical practice and not pursuing recovery of these funds.
- $0.3 million of the variance is being recovered by the Community Boards.
- $0.8 million of the variance is still being followed up by the Community Boards.

Management of the Provincial Board indicated that the problems identified as a result of the OCIA reviews will be addressed as part of the project to update their contracts, policies, and manuals.

Risk assessment will be used to direct another 30 reviews

During the year, the Provincial Board and the Community Boards also developed a self-reporting questionnaire and used it to perform an initial risk assessment of their larger service providers. They are using this risk assessment to direct the examination of 30 service providers in fiscal 2005–2006. As of July 31, 2005, 16 of these reviews were in progress. OCIA resource constraints have delayed the remainder of the audits, and the

Provincial Board is currently examining options available to appropriately staff this project.

To implement this recommendation, the Community Boards must complete their follow up of the first round of examinations and use their risk assessment to ensure that all high-risk service providers are examined. The Provincial Board and Community Boards will also need to develop a risk-based and sustainable long-term plan to audit service providers as part of their monitoring processes.

2.2 Performance reporting

Unqualified opinion

The financial statements for the Persons with Developmental Disabilities Provincial Board and the six Community Boards received unqualified auditor's reports.

Non-compliance with legislation

The auditor's reports of the six Community Boards contain an information paragraph reporting that expenses include payments made by the Persons with Developmental Disabilities Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation. The Community Boards provided services to individuals and funding to organizations that fall outside of the legislative authority set by the *Persons with Developmental Disabilities Community Governance Act*.

3. Other financial information—cost-sharing claims

Other financial information—cost-sharing claims

We issued unqualified auditor's opinions on the 2004–2005 cost-sharing claims under the *National Housing Act (Canada)*. We did these audits because the cost-sharing agreements require the claims to be audited.

Solicitor General and Ministry of Public Security

Summary: what we found in our audits

Systems

The Ministry still needs to develop and implement a plan to monitor the compliance of police services with *The Alberta Policing Standards Manual*—see page 298.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, the Department, and the Victims of Crime Fund are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2004–2007 business plan describes four core businesses:

- Policing and crime prevention
- Security services
- Victims programs and services
- Custody, supervision and rehabilitative opportunities for offenders

Ministry received $41 million

Total revenue for the Ministry was $41 million in 2004–2005. The Ministry's main revenue sources are:

	(millions of dollars)
Transfers from the federal government primarily for cost-sharing agreements	21
Fine surcharges	19

Ministry spent $358 million

The total operating expenses for the Ministry were $358 million in 2004–2005, comprised mainly of:

	(millions of dollars)
Public security	196
Correctional services	142
Victims of crime	13

For more detail on the Ministry, visit its website at www.solgen.gov.ab.ca.

Scope: what we did in our audits

1. Systems
   We followed up on our *2002–2003 Annual Report* recommendation (No. 40), for the Department of the Solicitor General to implement the plan for provincial policing standards.

2. Performance reporting
   We audited the financial statements of the Ministry, the Department, and the Victims of Crime Fund for the year ended March 31, 2005. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

Provincial policing standards—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 40—page 272), we recommended that the Department implement the plan for provincial policing standards. This repeated our recommendation from 1997–1998 (No. 34—page 163) to measure the adequacy and effectiveness of policing services.

Our audit findings

Police services field testing standards and giving feedback

The Ministry has made satisfactory progress implementing this recommendation. Alberta police services are now field testing the Alberta Policing Standards Manual issued in March 2004. The Ministry has also met with each police service to obtain feedback on implementing the standards.

Ministry hiring compliance assessment team

In 2004–2005, the Ministry hired an individual to lead the compliance assessment team. Now, the Ministry is hiring staff for the team and developing its plans for assessing compliance with the standards. The Ministry has targeted January 2006 to begin assessing police service compliance with the standards.

To finish implementing the recommendation, the Ministry must:

- develop a plan to assess compliance with the standards,
- assess compliance with the standards for several Alberta police services and report the results of the assessments to the police services, and
- develop processes to finish assessing all police services and to maintain current standards.

Sustainable Resource Development

Summary: what we found in our audits

Performance reporting

We issued unqualified auditor's reports on the Ministry, the Department and the Environmental Protection and Enhancement Fund financial statements. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—Natural Resources Conservation Board
  The Natural Resources Conservation Board should enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently—see page 304.

- Performance reporting— Natural Resources Conservation Board
  We issued an unqualified auditor's report on the Natural Resources Conservation Board financial statements.

Overview of the Ministry

Ministry spent $322 million

During 2004–2005, the Ministry spent $322 million on the following core business:

	(millions of dollars)
Wildfire management	195
Natural resource and public land management	108
Natural Resources Conservation Board (NRCB)	6
Surface Rights and Land Compensation Management	2
Other	11

Ministry received $203 million

The Ministry received $203 million in 2004–2005. The largest sources of revenue were:

	(millions of dollars)
Timber royalties and fees	130
Land and grazing	50

For more details on the Ministry, visit its website at www3.gov.ab.ca/srd.

Scope: what we did in our audits

1. Systems

We followed up our previous recommendations regarding fish management data collection and costing systems, and timber production audit processes.

2. Performance reporting

We audited the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund for the year ended March 31, 2005. We also completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to Minister

3.1 Systems—Natural Resources Conservation Board

We followed up our previous recommendation to the Natural Resources Conservation Board regarding the regulation of confined feeding operations.

3.2 Performance reporting—Natural Resources Conservation Board

We audited the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2005.

Our audit findings and recommendations

1. Systems

1.1 Fish management: data collection—implemented

Background

From our *1999–2000 Annual Report*

In our *1999–2000 Annual Report* (page 95), we recommended that the Department ensure that critical data is collected and entered into the Fish Management Information System (FMIS). These data returns are submitted by regional staff, the Alberta Conservation Association and fish research licence holders. The Department uses the data submissions to help them manage fisheries by obtaining current information regarding fish habitat and fish populations.

Our audit findings

Controls in place to monitor data collection

The Department of Sustainable Resource Development has implemented our recommendation. Management has appropriate internal controls in place to ensure that data entered into the FMIS database is complete and accurate. The Department has developed a management report to centrally monitor the status of data collection projects. Regional offices follow up overdue data returns and report back to management monthly. Once data is collected, it is verified by Department data specialists. Also, management updated the FMIS Manual to provide additional guidance to reduce data submission errors.

Systems to eliminate backlog

To eliminate the existing backlog of outstanding data returns, the Department has advised all licence holders that failure to provide the required data returns may lead to penalties and denial of licence requests. We have seen evidence that this system is working and will eliminate the backlog by March 31, 2006.

1.2 Fish management: costing systems—implemented

Background

From our *1999–2000 Annual Report*

In our *1999–2000 Annual Report* (pages 96–97), we recommended that the Department treat each hatchery or brood station as a cost centre, and that management integrate the financial data entry for IMAGIS and the Fish Culture Information System (FCIS). Further, we recommended that FCIS capture all relevant costs.

Our audit findings

Management has fish costing information

The Department has implemented our recommendations. Management developed a spreadsheet to provide full costing information. This spreadsheet captures the relevant costs included in IMAGIS for the Fish and Wildlife Division, as well as infrastructure costs obtained from the Department of Infrastructure. Using this information, the Department calculated the cost per location (brood station or hatchery), the cost per species, and the cost per stock category for fish produced. The Department plans to perform these calculations annually to support fish production decisions.

1.3 Timber production audits—implemented

Background

From our *2001–2002 Annual Report*

In our *2001–2002 Annual Report* (No. 48—page 245), we recommended that the Department improve the planning, documentation, and reporting of results for its timber production audit group. We also recommended that the Department improve the timeliness of its timber production auditing.

Our audit findings

The Department has a timber audit plan and progress is monitored quarterly

The Department has implemented our recommendations. An annual audit plan is approved by senior management that provides a basis for timber production audit activity and for an annual reporting of actual results. The audit plan is risk-focused. During the planning stage, the Department completes a risk assessment of each timber company based on interviews with timber company staff and previous audit findings. Quarterly and annually, management receives an *Audit Production Report* to assess the progress of timber audits against the annual plan.

Timber audits are conducted on a timely basis

Forest Management Directives prescribe that timber audits should be completed within a year of the end of the five-year annual allowable cut period. The Department's timber audit completion rate within this timeframe has improved. Of the 13 audits due by April 30, 2005, the Department completed, or substantially completed, 8 audits (62%). The remaining five audits were started before April 30, 2005 and will be completed by November 2005. This compares to a completion rate of 9% in 2003–2004. The sample of timber audit files we reviewed were properly documented and organized in a logical and consistent basis.

2. Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund. Also, we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—Natural Resources Conservation Board

3.1.1 Confined feeding operations—satisfactory progress

Background

From our *2003–2004 Annual Report*

In our *2003–2004 Annual Report* (No. 28–page 294), we recommended that the Natural Resources Conservation Board (NRCB) enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently.

Our audit findings

Management is prioritizing compliance activities

NRCB has made satisfactory progress implementing our recommendation. Management now has a high-level risk assessment of the Confined Feeding Operations (CFO) that guides their compliance and enforcement processes. This assessment will be refined by more detailed risk assessments that NRCB will complete for each CFO over the next five years.

Compliance audit backlog reduced

To reduce the backlog of compliance audits, management dedicated certain inspectors to complete the audits, while others focused on handling odour and nuisance complaints. We also saw improvement in NRCB's handling of complaints since inspectors now use a risk-based approach to guide the extent of their response.

Several outstanding items remain

To implement this recommendation, NRCB needs to:

- complete detailed risk assessments of several CFOs, and demonstrate that they will achieve their plans to assess all CFOs within five years,
- eliminate the backlog of compliance audits, and
- implement the odour-handling protocol designed to further improve inspectors' efficiency in handling complaints.

3.2 Performance reporting—Natural Resources Conservation Board

We issued an unqualified auditor's opinion on the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2005.

Members of the Legislative Assembly (MLAs) expense reimbursements

Systems

MLA expense reimbursements reviewed

In 2002, we examined the system used to produce the Report[1] that provides information on payments to MLAs and the systems used to reimburse MLAs for expenses incurred in their work.

No evidence of inappropriate payments

We did not find any evidence of inappropriate MLA expense reimbursement and we concluded that the systems in place would generally prevent inappropriate payments.

Improvements could be made

However, we noted that improvements could be made in the system that produces the Report and the systems used to reimburse MLA expenses.

Our audit findings and recommendations

1. Systems

1.1 MLA expense reimbursement—implemented

Background

In our *2002–2003 Annual Report* (page 289), we recommended that Legislative Assembly Office (LAO) strengthen its internal control systems for MLA expense reimbursement by communicating to the Members' Services Committee the need to require appropriate documentation to support claims.

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[1] Under the *Legislative Assembly Act* (LAA), the Minister of Finance is required to publish an annual report detailing payments made to Members. Section 37 (4) of the LAA requires the report to include amounts paid by the government as fees and as travelling and living expenses to MLAs appointed to boards, commissions or committees. The report is combined with information required under Section 16 of the *Conflict of Interests Act* to produce the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* (the Report). The Ministry of Finance has also included information on remuneration to MLAs in this Report under Section 10(2)(e) of the *Government Accountability Act*. Our audit was concerned with only a portion of the Report, specifically expense reimbursement.

Our audit findings

Speaker communicated to all MLAs the need for appropriate detailed receipts

To address our recommendation the Speaker of the Legislative Assembly communicated to all MLAs, in a memo dated January 5, 2004, the rules regarding hosting expenses and the need for appropriate detailed receipts to support those claims.

We will continue to monitor LAO's progress as part of our attest audit through the examination of expense accounts. We encourage the speaker to send out reminders to MLA's regarding the rules for submitting hosting expense claims from time to time.

1.2 Report of payments to MLAs—satisfactory progress

Background

In our *2003–2004 Annual Report* (page 309), we again recommended that the Minister of Finance improve the timeliness of the annual report of payments to MLAs.

Our audit findings

Report detailing payments to MLAs must be issued promptly

Although the Ministry agreed to work with the LAO to distribute a draft Report to MLAs for review approximately six months after the fiscal year-end, the Ministry's timelines were affected by the provincial general election held in November 2004. Therefore, the 2003–2004 draft Report was made available for MLA review in December 2004 and the report was tabled in the Legislature in March 2005. As a result, we will follow up again next year on the tabling of the 2004–2005 Report.

Offices of the Legislative Assembly

Summary: what we found in our audits

Performance reporting

We audited the financial statements of all the Offices of the Legislative Assembly, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Unqualified auditor's reports

Our auditor's reports for all Offices' financial statements contained unqualified audit opinions for the year ended March 31, 2005.

Overview of the Offices of the Legislative Assembly

6 Offices of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses, are:

	(millions of dollars)
Legislative Assembly Office	34.2
Office of the Auditor General	16.5
Office of the Information and Privacy Commissioner	3.9
Office of the Ombudsman	1.8
Office of the Chief Electoral Officer	13.7
Office of the Ethics Commissioner	0.3

For more detail on the Legislative Assembly Office, visit its website at www.assembly.ab.ca. This website also contains links to the other five Offices of the Legislative Assembly.

Supplementary information

Section 11(b) Audits

Under section 11(b) of the *Auditor General Act*, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 2004–2005 fiscal year, the Auditor General acted as auditor of the following organizations:

- Calgary Health Region
- Carewest
- Capital Health
- Capital Care Group Inc.
- Chinook Regional Health Authority
- East Central Health
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Lethbridge Community College Foundation
- Mount Royal College Day-Care Society
- Northern Lights Health Region
- Olds College Foundation
- Peace Country Health
- PENCE Inc.
- Students' Association of Mount Royal College
- The University of Calgary Foundation (1999)

Reporting the status of recommendations

We require the government to agree to an implementation date for each recommendation it accepts. We follow up all recommendations and report their status in our annual report. Within each chapter, the section titled, *Our audit findings and recommendations*, reports the status as follows:

Status of recommendation	**What we say in the report**
Implemented	We briefly explain how the government implemented the recommendation.
Satisfactory progress	We describe the progress and what the government must still do to implement the recommendation.
Unsatisfactory progress	We explain why progress is unsatisfactory and what the government must still do to implement the recommendation. We also repeat the recommendation.

Issues more than 3 years old are shown on page 317.

	Total numbered recommendations [1]	Fully Implemented [2]	Not yet implemented Progress Satisfactory [3]	Repeated in this report
1996–1997	26	25	1	-
1997–1998	47	45	2	-
1998–1999	28	23	4	1
1999–2000	33	27	5	1
2000–2001	26	20	5	1
			17	3

Recommendations repeated in this report (2004–2005)

Agriculture, Food and Rural Development
2005 Recommendation No. 20–Grant management system (2001–No. 3)

Environment
2005 Recommendation No. 31–Financial security for land disturbances (1999–No. 30)

Finance
2005 Recommendation No. 33–ATB Branch operations compliance (2000–No. 49)

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[1] Excludes repeated recommendations
[2] Includes not repeated due to changed circumstances
[3] If a recommendation has not been followed up, its progress is treated as satisfactory

Government's response to 2003–2004 recommendations

The following are the numbered recommendations in the Auditor General's 2003–2004 Annual Report and the government's response to each of them.

For accountability purposes, the government responded to a recommendation on contracting for consulting services.

Auditor General's recommendations	Government's response
Cross-Ministry	
1. Succession management guidance We recommend that the Personnel Administration Office, working with deputy ministers, provide additional guidance and support to help all departments implement succession management systems.	Accepted. Additional guidance and support will be provided.
Public Private Partnerships (P3s)	
2. Identifying opportunities to use a P3 We recommend that the Ministries of Infrastructure and Transportation, as co-chairs of the Deputy Minister Capital Planning Committee, work with the Ministry of Finance and other ministries to: 1. improve the definition of a P3 2. determine key prerequisites to identify projects most suitable for P3s 3. define when differences in key processes are appropriate 4. improve the timeliness of information and the overall analysis of alternatives to decision makers 5. define what constitutes a significant change in project scope 6. evaluate transparency and accountability of P3s	Accepted. The Ministries of Infrastructure and Transportation, and Finance will work through the Capital Planning Initiative to define and improve Alberta's P3 process by addressing the six identified items.
Agriculture, Food and Rural Development	
3. Risk assessment for the agriculture and agri-food industry in Alberta We recommend that the Department of Agriculture, Food and Rural Development complete a risk assessment that analyzes the probability of major risks to the agriculture and agri-food industry in Alberta. Based on the results of the risk assessment, the Department should also develop risk mitigation and response strategies.	Accepted. More formalized processes for sharing the potential impacts of known risks on the agricultural economy and international trade will be implemented. Ministry officials are targeting for 2004-05 implementation, but completion will be dependent on the Ministry's ability to reallocate resources from other response priorities.

Auditor General's recommendations	Government's response
4. Measurable targets We recommend that the Department of Agriculture, Food and Rural Development establish measurable targets for its emergency financial assistance programs.	Accepted. The Ministry will endeavour to establish reasonable targets for emergency response programs. Decision templates have been updated to incorporate formal documentation of this component.
5. Contingency planning We recommend that the Department of Agriculture, Food and Rural Development, working with other governments and industry, immediately develop and implement a contingency planning process.	Accepted. Numerous activities are underway to resolve critical issues as soon as possible. In addition, the Foreign Animal Disease Eradication Support (FADES) Plan for Alberta is in the final stages of renewal. This plan incorporates a contingency plan for highly contagious foreign animal disease outbreaks. However, a specific timeline for implementation of additional components such as an economic impact analysis has not yet been identified given the multi-jurisdictional nature of these issues.
6. BSE testing quota We recommend that the Department of Agriculture, Food and Rural Development, working with the federal Canadian Food Inspection Agency (CFIA) and the beef and related industries, ensure that Alberta meets its contribution to Canada's BSE testing quota.	Accepted. The recently implemented Canada-Alberta BSE Surveillance Program has increased the number of heads that are being tested. This program, combined with the construction of the new Level 3 bio containment laboratory, will help to ensure Alberta meets its contribution.
Children's Services	
7. Reporting to senior management on the Delegated First Nation Agencies We recommend that the Ministry of Children's Services improve the quality of its reporting to Ministry senior management on program delivery at the Agencies.	Accepted. A number of actions are being undertaken this year to standardize the reporting of the Delegated First Nation Agencies. The Ministry is developing a standard annual report format and monitoring checklists that will improve the quality of the reporting to senior management. In addition, a quality assurance review is underway to assess the data elements in the Ministry's information system to address the appropriateness and accuracy of these elements as key indicators in the annual report process.
Community Development	
8. Service provider risk assessment We recommend that the Persons with Developmental Disabilities Provincial Board, in conjunction with the six Community Boards, reduce the risk of service providers breaching contracts by: • performing a risk assessment to identify service providers with a high risk of breaching contracts; and • auditing high-risk service providers to ensure that they spend funding according to their contracts and that they meet the other terms of their contracts.	Accepted. The Persons with Developmental Disabilities Provincial Board will work with the Office of the Chief Internal Auditor to conduct a risk assessment of service providers. Those service providers that are assessed to be high risk will be audited this fiscal year. The results of the risk assessment will also be used to design and implement a sustainable, risk-based internal audit plan that will be ongoing into the future.

Auditor General's recommendations	Government's response
9. Contract monitoring and evaluation We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by: • requiring individual funding service providers to provide adequate financial reporting; • obtaining annual financial statements to evaluate the financial sustainability of critical service providers; • implementing a sustainable, risk-based internal audit plan; • developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers; and • implementing a method to evaluate service provider performance.	Accepted. The Persons with Developmental Disabilities Provincial Board will work with the Community Boards to enhance accountability by implementing the policy and practice changes recommended by the Auditor General. This will result in more rigorous standard accountability requirements across all PDD-funded service providers. Policy development and related staff training will be completed by March 2005 for implementation at the beginning of the 2005-06 fiscal year.
Energy	
10. Oil sands projects approvals We recommend that the Department of Energy: • set expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications. • incorporate risk into its present value test used to assess project applications.	Accepted. The ranges will be developed in 2004-05. The recommendation to "incorporate risk into its present value test used to assess project applications" is accepted in principle and will be fully considered and assessed, including consultation with potentially affected stakeholders commencing in 2004-05.
11. Evaluation of industry reporting We recommend that the Department of Energy improve its documentation of its verification procedures for oil sands royalty information and its audit results.	Accepted. Several improvements have already been implemented.
12. Alberta Royalty Tax Credit program We again recommend that the Department of Energy document and communicate the objectives of the Alberta Royalty Tax Credit program and use measures to assess whether the program is meeting its objectives (2003—No. 11).	Accepted. As noted in the audit findings, during the 2003-04 fiscal year the department has developed a draft objective and performance measures. The Ministry will work with Alberta Finance to obtain formal approval of the objective.
Environment	
13. Relevancy and sufficiency of performance measures We recommend that the Ministry improve the process for developing new performance measures and ensure the measures in its business plan assess the results each goal aims to achieve.	Accepted in principle. These recommendations will be considered in preparing the 2005-08 Business Plan in the context of the government's standards for 2005-08 ministry business plans.

Auditor General's recommendations	Government's response
Finance	
14. Private Sector pension plans: compliance information We recommend that the Office of the Superintendent of Financial Institutions ensure that compliance staff: - promptly review and follow-up compliance information obtained from private sector pension plans - receive appropriate training to effectively discharge their responsibilities	Accepted. A business process review is underway and will be completed in 2004-05. The purpose is to identify ways to improve compliance processes and a work flow tracking system has been introduced to better monitor timelines for review of compliance information. An overall business unit competency/training plan for 2005-06 will be developed.
15. Private sector pension plans: monitoring We recommend that the Office of the Superintendent of Financial Institutions improve its processes for monitoring private sector pension plans by: - preparing a risk-based annual plan for its compliance monitoring program that identifies resources required to effectively carry out the plan - reporting the results of regulatory activities by compliance staff to senior management - updating its policies and procedures manual	Accepted. The Office has instituted a risk assessment system, which is being used to identify at-risk plans for further action. Further, in conjunction with the business process review, reporting requirements for senior management are being identified and reporting processes will be established by the end of 2004-05. Also, policy and procedure manuals will be updated as required based on the results of the business process review.
16. Private sector pension plans: high-risk plans We recommend that, for high-risk employer pension plans, the Office of the Superintendent of Financial Institutions obtain: - assurance from pension plans' auditors on the plans' compliance with the Employment Pension Plans Act, Regulation and plan document - information on pension plans' governance structure and practices	Under review. Further consultation with stakeholders regarding the assurances to be provided by the plan's auditors will take place by March 31, 2006. Starting in 2005-06, procedures for examinations and reviews will incorporate methods for obtaining information about the governance structure and practices of high-risk pension plans.
17. ATB: Lending policy compliance We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies (2003—No. 15).	Accepted. The policy, guideline and process changes that are necessary to address the compliance issues raised have been identified. The most significant changes are currently on track for implementation by June 2005 with continuous improvement planned after that time period.
18. ATB: Key internal controls at Branches We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate polices and procedures (2002—No. 17).	Accepted. A new compliance assessment program and scorecard to assess, monitor and, as necessary, remediate performance against key compliance issues in branch administration and retail credit processes has been implemented. The program involves a follow-up round of site visits by compliance teams that will be completed before the end of the 2005-06 fiscal year.

Auditor General's recommendations	Government's response
19. ATB: Investment service regulatory compliance We recommend that ATB Investment Service Inc., ATB Investment Management Inc., and ATB Securities Inc. enhance their control processes to ensure they meet regulatory requirements.	Accepted. Programs have already been implemented to address all regulatory issues noted during the Auditor General's 2003-04 examination. It is anticipated that these programs will be completed by March 31, 2005.
Government Services	
20. Contracting policies and procedures We recommend that the Alberta Corporate Service Centre: • develop comprehensive contracting policies and procedures • train staff on how to follow the policies and procedures • monitor staff compliance with the policies and Procedures	Accepted. ACSC will develop more comprehensive contracting policies and procedures by December 31, 2004 and train staff by March 31, 2005. Monitoring processes will then be implemented to ensure staff comply with the new policies and procedures.
Health and Wellness	
21. Health care registration We recommend the Department of Health and Wellness improve control over the health care registration system (1999—No. 40).	Accepted. The Ministry is working to improve control over health registration. Prior to October 2004, a plan was developed for a new eligibility verification policy and process that introduces increased rigor by ensuring applicants provide proof of identity, residency and legal entitlement to reside in Canada. The implementation date for this new policy is January 2005. In October 2004, the Ministry began implementing a new duplicate or replacement health card policy and procedure.
22. Information technology control environment We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan (2002—No. 24).	Accepted. The Ministry began a comprehensive risk assessment of its IT environment in September 2004 with an anticipated completion date in the first quarter of the 2005-06 fiscal year. The Ministry has conducted a walk through of data and application processes on an annual basis with a mainframe recovery test conducted successfully in December 2003. The development of an all-encompassing formal disaster recovery plan is now well underway with an anticipated completion date of March 31, 2005.

Auditor General's recommendations	Government's response
23. Accountability of the Health Regions to the Minister We again recommend that the Department of Health and Wellness improve accountability of the Health Regions to the Minister by: • ensuring performance expectations for the Health Regions are explicit and accepted by the Health Regions, • reviewing and providing feedback to the Health Regions on the Health Regions' progress towards meeting expectations, and • taking follow up actions, including rewards and sanctions, to improve the future performance of the Health Regions (1998—No. 26).	Accepted in principle. A robust accountability process that includes rewards and sanctions will evolve over time. The multi-year performance agreement process for 2004-05 and the new planning process for 2004-08 attests to the Ministry's attempts to improve the accountability of regional health authorities and provincial boards. The Ministry and the health authorities are continuing to refine performance measures and targets, including ways to improve quarterly reporting.
Infrastructure	
24. Swan Hills Treatment Plant We recommend that the Ministry of Infrastructure establish a process to assess whether the Swan Hills Treatment Plant is achieving its objectives.	Accepted. A comprehensive strategic assessment will be undertaken by 2008-09.
Innovation and Science	
25. Security awareness Program We recommend that the Corporate Chief Information Officer implement a security awareness program for government employees.	Accepted. The Office of the Corporate Chief Information Officer will work with the Office of the Auditor General and the Chief Information Officers' Council to reinforce the importance of ministries developing and delivering security awareness training to users of critical systems through the 2005-06 fiscal year.
Learning	
26. University of Calgary: Planning for research capacity We recommend that the University of Calgary improve human resource and space plans and develop a system to quantify and budget for the indirect costs of research.	Accepted. The University is developing a comprehensive review of resources required to deliver its core services with a focus on its human resource and space planning. The University will continue to work with the Ministry and the federal government over the next two years to develop an improved understanding and appropriate funding of the incremental indirect costs of research.
Revenue	
27. Reliance on Canada Revenue Agency's compliance auditing We recommend that the Tax and Revenue Administration division of the Ministry of Revenue justify its reliance on the compliance audit activities of the Canada Revenue Agency.	Accepted. The Canada Revenue Agency has been asked for relevant information to be provided on an ongoing, formalized basis, and this request will be discussed further in upcoming meetings. The information obtained will be used in updating the program risk analysis.

Auditor General's recommendations	Government's response
Sustainable Resource Development	
28. Confined feeding operations We recommend that the Natural Resources Conservation Board enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently.	Accepted. The Natural Resources Conservation Board (NRCB) will be assessing compliance management practices in other jurisdictions, which will be used to formulate a standardized protocol by March 31, 2005. All senior managers have begun to formalize operational plans, with assistance from a professional consultant, to coincide with the development of the NRCB's 2005-08 Business Plan.
Transportation	
29. Monitoring processes for inspection programs We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by: • documenting policies, procedures and management's expectations of the Vehicle Safety Investigators to ensure that they perform their functions appropriately and consistently; • developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs.	Accepted. The Ministry will publish existing policies for Motor Vehicle Inspection Program and Commercial Vehicle Inspection Program, and develop procedures during 2004-05, with completion expected for Spring 2005. A risk based assessment model which will allow the resources to be more effectively targeted to areas requiring intervention will be implemented. Performance and activity reporting for contract auditors will be implemented within the 2004-05 fiscal year.
30. Licensing inspection stations and technicians We recommend that the Ministry of Transportation improve the process to license inspection facilities and technicians.	Accepted. The Ministry will work on improving the process to license inspection facilities and technicians during 2004-05, with implementation to be completed in 2005-06.
Members of the Legislative Assembly (MLAs) expense reimbursements	
31. Timeliness of Report of payments to MLAs We again recommend that the Minister of Finance improve the timeliness of the annual Report of payments to MLAs (2003—page 290).	Accepted in principle. Finance will work with the Legislative Assembly Office to streamline the process for developing the report.
Health and Wellness	
Accountability	
Contracting for consulting services We recommend the Department of Health and Wellness follow its contract management policy and processes in awarding any contract for consulting services.	Accepted. The Ministry has requested the Office of the Chief Internal Auditor to review the Ministry's contract management processes to ensure the contract management policy is being followed. In addition, Treasury Board reinforced its previous policies and the Office of the Chief Internal Auditor and Finance will survey ministries annually.

Results Analysis

March 31, 2005

Mission

"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans."

Under the *Auditor General Act*, the Auditor General and the staff of the Office of the Auditor General (OAG) fulfil the Auditor General's statutory duties.

The purpose of the OAG is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it.

This mission is fulfilled objectively because both the Auditor General and his Office:
- are independent of government
- have a working knowledge of government structures and information systems, relevant legislation, and the risks and issues facing government
- are familiar with and adhere to accounting and assurance standards recommended by the Canadian Institute of Chartered Accountants
- possess a wealth of practical experience

Core Businesses

The OAG operates two separate but complementary core businesses.

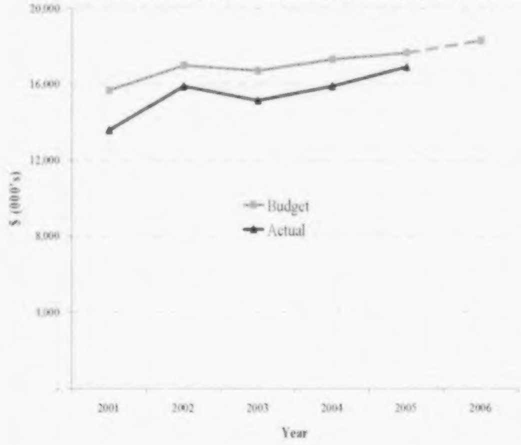
1. Assurance auditing
   Assurance audits confirm that the performance reports of government organizations are credible. We provide opinions on whether financial statements are presented fairly in accordance with applicable standards and we examine transactions for compliance with legislation. We also examine the non-financial performance measures that government organizations include in their reports.

2. Systems auditing
   Systems audits examine accounting and management control systems of government organizations to identify opportunities for improvements. These are the systems used by government organizations to manage the risks of not achieving their objectives with economy and efficiency. We provide recommendations for improved cost-effectiveness in the management of public resources. Recent examples include recommendations on BSE-related government assistance programs, public private partnerships, seniors long-term care, health care registration, and succession management in the public sector.

Office performance

In comparison to budget

Figure 1: Budgets Approved by the Legislative Assembly



Our operations are funded by an annual appropriation from the Legislative Assembly. For 2004–2005, the funding approved was $17,196,000 for operating purposes, and $450,000 for capital purposes.

The Office is returning $736,000 to the Legislative Assembly for the 2004–2005 fiscal year. This unspent portion of our budget arises mainly from a reduction in personnel costs due to staff turnover and reduced use of certain special technical advisors.

Figure 1 shows the approved budgets and actual spending of the Office over the last five years.

Operating Variances

Output costs

Schedule 1 of the Office's 2004–2005 financial statements summarizes the costs by ministry for assurance and systems audits. The costs relate to the fiscal year ended March 31, 2005 and therefore the results of a significant portion of the corresponding audit work were reported in the Annual Report of the Auditor General for 2003–2004, the Report on the government's BSE-related Assistance Programs (July 2004) and the Report on Seniors Care and Programs (May 2005).

In 2004–2005, we carried out 9,000 more hours of assurance work than budgeted. However, our overall assurance costs were $545,000 less than budget because the work was completed by less senior staff.

While there was little overall cost variance in 2004–2005 between budget and actual for our systems audits, there were significant variances at the individual ministry level. For instance, $108,000 was budgeted for Agriculture, Food and Rural Development whereas $659,000 was incurred. The majority of the cost increase related to the BSE special report, which was unbudgeted but reflected our capacity to quickly respond to the emergent external request.

Another significant variance arose from the additional work we did in the ministries of Health and Wellness and Seniors to complete our report on Seniors Care and Programs. The actual costs exceeded our budget since we took a more expanded audit approach than originally reflected in the budget.

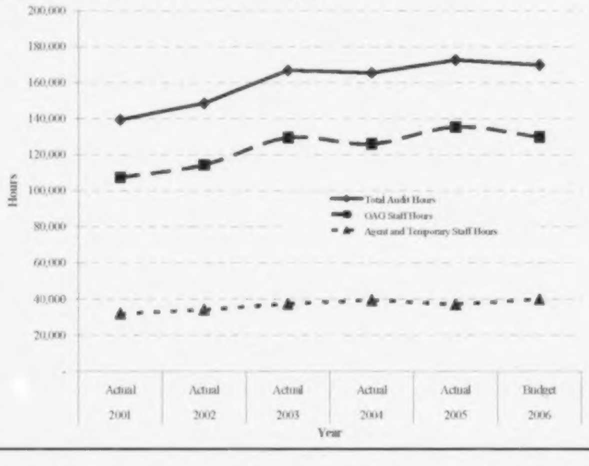
Conversely, we had some ministries where the systems audit costs were significantly under budget. These include Children's Services, Cross-Government, and Restructuring and Government Efficiency. Most of the variances for these ministries can be attributed to a shift in the timing of some audit work until the ensuing fiscal year because the staff were needed to complete the BSE and seniors care and programs systems audits or because the ministries were not ready due to the government's reorganization. In other cases, we decided not to proceed with certain projects, or to proceed with a reduced scope. These decisions were necessary in many cases because of the departure of senior personnel at key times during the year, which translated into 7,000 fewer hours available for systems audits than budgeted. The effect of this was partly offset by the addition of 1,000 hours of agent time incurred to complete the systems audits.

Personnel costs

Personnel cost approximate 90% of our current operating expenses. These comprise salaries and wages for OAG staff, employer contributions, agent fees, temporary staff services, and general advisory fees.

Salaries, wages, and employer contributions

Figure 2: Hours by Resource Type



We budgeted for 130 full-time equivalent positions (FTEs) in 2004–2005. Due to staff turnover, we averaged approximately 122 FTEs throughout the year. This reduced our salaries, wages and employer contribution costs by $622,000 or 6%.

Since 2003–2004, our payroll increased by 6% due to a 2% overall increase in average salary rates and a 4% increase related to the addition of 5 FTEs which took us from 117 to 122 FTEs. Individual salary increases over and above the 2% were partially offset by the reduced average salary rates due to the departure of several senior staff (4 Principals and 7 Managers).

There continues to be an increase in the demand for Systems audits. We plan to increase our audit activities to meet this need and are further developing staff with specialized skills to provide recommendations on how to improve corporate governance, risk management and the design of systems of control. To meet this demand, we will continue to focus on recruiting and training our own staff. We have budgeted for 131 FTEs for 2005–2006.

Agent and other professional services

In the past year, 11 public accounting firms in Edmonton, Calgary, Lethbridge, Red Deer, and other centres across the Province have assisted us as agents of our Office. When using agents, OAG staff continue to oversee the work, but our practice gains an additional skilled resource to meet peak work demands, acquires cost-effective specialist skills, gains a point of reference for comparing our methodology and costs, and saves on travel costs.

In 2004–2005, actual agent fees exceeded our budget by $268,000 or 8% and 2003–2004 spending by $613,000 or 20%. The increase resulted from:

- Systems audits where we required certain specialists to supplement our audit team. For example, we contracted agriculture economists on our BSE project, and medical, pharmaceutical, and nutritional professionals on our seniors long-term care audit.
- More use of agents in low risk assurance work in order to enable our own staff to perform systems audits

The market price for obtaining agent resources from accounting firms has increased substantially over the last few years and is expected to continue to increase in the future. Therefore, we have budgeted an additional $530,000 in 2005–2006 for a total of $4,250,000 in agent fees.

Temporary staff

The Office contracts with accounting firms to obtain qualified audit staff during our peak work periods. In the past year, the cost of such temporary staff was below budget by $80,000 or 7% and below 2003–2004 spending by $434,000 or 30%. The cost reduction was a direct result of the Office's strategy to develop and use internal resources, which was achieved due to our higher than average number of student recruitments over the last two years.

Because temporary staff services are expensive, our goal is to control the use of such resources. Meeting our budget of 131 FTEs in 2005–2006 will continue to help us reduce our dependency on temporary staff. We have budgeted for 8,600 hours of temporary staff time in 2005–2006 compared to 10,900 actual hours in 2004–2005.

Advisory services

Advisory services include special services fees related to communications, legal issues, information systems, and professional practices. In 2004–2005, actual advisory fees were below budget by $238,000 or 57%. The majority of the variance is due to lower than anticipated demand since most of these services are driven by the nature and number of special or unusual issues that arise during the year. Also, $50,000 of this budget was used for instructor fees for an office-wide in-house training session whose costs are included in the professional fees, training, and development.

Supplies and Services Expenses

In the Supplies and Services category, our Office was marginally under budget by 2% or $36,000, which is mostly attributed to conducting recruitments in-house rather than using employment agencies.

Supplies and services costs increased by 5% or $93,000 since 2003–2004 due to a combination of the following:
- Higher accounting student articling costs following the large volume of entry level recruitments;
- Higher professional development costs to develop additional skills in the areas of leadership, communication, forensic audit, and information technologies;
- More audit travel related to special reports on BSE programs and seniors care and programs;
- Additional software license subscriptions to support our audit teams.

Capital Investment

In 2004–2005, we replaced our entire fleet of 130 laptops which were approximately four years old and were becoming less reliable and expensive to maintain. We also replenished the majority of our desktop monitors and one major computer server. Our actual capital costs were approximately $27,000 lower than the budget of $450,000 for capital investment.

In 2005-06, we will examine our existing space to fit in six additional workstations to accommodate our growing staff complement. We also plan to replace certain computer hardware. The costs for these capital activities are budgeted at $165,000.

Other performance information

Schedule 2 of our 2004–2005 audited financial statements includes our performance measures. Because of the elapse of time since March 31, 2005, in some cases more recent performance results are available. These and other results that relate to performance within the year ending March 31, 2006, will be reported in the financial statements of that year.

The OAG measures its performance throughout the fiscal year, as well as at year end. We continually refine our performance measures to better reflect our goals and core businesses. Where appropriate we have restated the comparative results for 2003–2004.

Issuance of reports

We issued our reports on the 2003–2004 consolidated financial statements of the Province and on the 2003–2004 Measuring Up results (performance measures for the Province) on target in June 2004. We also met our targets of either July 15 or within 120 days of entity year-ends for the issuance of auditor's reports on the financial statements of all entities that we audit. For entities that are included in the Province's consolidated financial statements, we have allowed 2 weeks past July 15 for a delay caused by late changes to the Salaries and Benefits note disclosure. Without this allowance, 61% would have met the target as opposed to 99%.

All but two of our reports on ministry performance measures were issued on or before the target date of September 15, 2004. We are continuing our effort to have the public sector entities better prepared for audit and are retaining the same targets, or have set more ambitious targets, for our audit categories.

Acceptance of the Auditor General's primary recommendations

Regarding the 2003–2004 Annual Report of the Auditor General, 87% or 27 of 31 numbered recommendations were accepted by the government. We did not meet our target of 95% acceptance; however the remaining 13% received responses of "accepted in principle" or "under review". These responses mean the OAG has not been able to convince senior management that the recommendation should be implemented. OAG staff continue to work with senior management to support the implementation of all of our Annual Report recommendations by suggesting alternative solutions, sharing our experience in dealing with the relevant problems, providing advice, and assessing progress towards implementation.

Implementation of the Auditor General's primary recommendations

Twenty-one issues raised prior to 2000–2001 had not yet been implemented at the time of issue of our 2003–2004 Annual Report of the Auditor General. The ministries concerned had not rejected these recommendations; rather, progress in implementation was slower that originally anticipated. The status of these 21 recommendations can be found on page 319 of the 2003–2004 Annual Report of the Auditor General. Page 317 of this 2004–2005 Annual Report of the Auditor General indicates that 20 issues raised prior to 2001–2002 have not yet been implemented. For 17 recommendations, management has made satisfactory progress and for 3 management has made unsatisfactory progress in implementing the recommendations.

Audit staff resource capacity

This measure tracks the utilization of each member of the Office. We met our target of 100% of staff meeting their goal for time spent on core business functions. For each staff member, the goal is that all their time is spent on assurance audits, systems audits and business functions, other than time for vacations and sick leave.

Planning for resources

This measure indicates the percentage of audit projects that were completed during the fiscal year within the original budget. This year we refined the measure to only include projects with more than 200 audit hours in their budget.

The 2004–2005 results show that we completed 71% of our assurance audits within budget, exceeding our target of 70%. We have increased our target to 80% for 2005–2006. We were short of our target of 70% for Systems audits since the extent of time required to complete the systems audits was underestimated during the planning stage.

Systems audit budgets are challenging to prepare as the extent of work required depends largely on the number and type of issues that may be encountered during the audit. We will continue to refine our budgeting process by incorporating prior experiences and gathering as much information as possible at the planning stage.

Costs by core business

A key strategy for the Office is to maintain our target of 30% of the cost of our resources allocated to systems audits. In 2004–2005, we slightly exceeded our target by increasing the proportion of resources spent on systems audits from 27% to 31% of total audit costs.

Employee satisfaction survey

We conduct staff satisfaction surveys every two years; the next one will be in 2005–2006. We recognize the importance of staff morale and we will continue with initiatives developed during the previous year to continuously improve the overall working environment of the Office. For example, we will focus on increasing communication between our work teams and across the Office, and we will improve our annual employee evaluation and development processes.

Corporate service costs

We strive to ensure our corporate service functions operate at an efficient level. These functions include: human resource management; training and development; information technology; and accounting and administration. This year, we met our target of keeping corporate costs below 20% of total Office costs.

For the future

Last year was both a challenging and successful year. We believe next year will continue to present similar challenges and new opportunities. As part of our 2005–2008 Business Plan, we established the following strategic priorities:

- Maintaining our audits of government systems—our mandate requires us to ensure that we undertake the right audits that result in relevant, reliable and timely reports, and that help the Legislative Assembly to hold government accountable for its management of public resources. We will meet the challenge by maintaining the level of our resources dedicated to priority systems work at 30 per cent of our Office's total budget. Our audit priorities include: systems for improving the safety and welfare of Albertans, such as management of the quality and quantity of water, food safety, and services targeted to vulnerable Albertans; systems for managing the security and use of the province's resources, such as non-renewable resource revenues, work on governance and ethics, and improving the effectiveness of boards and oversight committees.

- Optimizing resource allocation to achieve our goals—ensuring the right mix of technical knowledge and expertise to provide high quality products for all our audits will continue to be a priority. We will continue to find efficiencies in our Assurance auditing, primarily through relying on internal controls and internal audit when both of these are assessed as effective. Matching the allocation of our resources to audit risk will continue to be the key to our cost-effectiveness. Being efficient in what we do enables us to meet demands for Assurance work on the financial statements of any new government entities and our specified auditing procedures on the performance measures of government organizations other than ministries. It also means that we can dedicate more resources to our Systems audits and respond to special requests for assistance, such as our work on BSE-related assistance programs in the past year.

AUDITOR
GENERAL
Alberta

Alberta Legislature

Office of the Auditor General

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General
May 30, 2005

Alberta Legislature
Office of the Auditor General
Financial Statements
March 31, 2005

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information

KRP LLP
KINGSTON ROSS PASNAK

May 30, 2005
Edmonton, Alberta

AUDITORS' REPORT

To the Members of the Legislative Assembly:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2005 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Kingston Ross Pasnak LLP]

Kingston Ross Pasnak LLP
Chartered Accountants

Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2005

	2005	2004
Assets		
Audit fees receivable	$ 1,184,690	$ 999,411
Other receivables and prepaids	52,079	87,077
Capital assets (Note 4)	519,467	360,738
	$ 1,756,236	$ 1,447,226
Liabilities		
Accounts payable	$ 1,093,161	$ 1,003,213
Accrued vacation pay	992,232	820,555
	2,085,393	1,823,768
Net Liabilities (Assets)		
Net liabilities at beginning of year	(376,542)	(37,851)
Net cost of operations	(14,008,609)	(13,655,461)
Net transfer from general revenues	14,055,994	13,316,770
	(329,157)	(376,542)
	$ 1,756,236	$ 1,447,226

The accompanying notes and schedules are part of these financial statements.

Office of the Auditor General
Statement of Operations
Year Ended March 31, 2005

	2005		2004
	Budget (Note 6)	**Actual** (Note 3)	**Actual** (Note 3)
Personnel			
Salaries and wages (Note 8)	$ 8,890,000	$ 8,404,994	$ 7,943,488
Agent and other audit services fees	3,450,000	3,718,129	3,105,296
Employer contributions	1,358,000	1,220,556	1,149,955
Temporary staff services	1,104,000	1,024,788	1,458,784
Advisory services	415,000	177,106	309,968
	15,217,000	14,545,573	13,967,491
Supplies and services:			
Professional fees, training and development	672,000	612,013	522,829
Technology services	366,000	385,319	368,834
Travel	337,000	372,089	302,396
Amortization of capital assets	287,000	263,809	358,861
Materials and supplies	147,000	121,903	112,785
Telephone and communications	76,000	71,995	76,046
Rental of office equipment	50,000	72,774	62,042
Repairs and maintenance	12,000	13,617	16,611
Miscellaneous	32,000	28,458	29,537
	1,979,000	1,941,977	1,849,941
Total office professional services	$ 17,196,000	16,487,550	15,817,432
Audit fee revenue		(2,478,941)	(2,161,971)
Net cost of operations for the year (Note 7)		$ 14,008,609	$ 13,655,461

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2005

	2005	2004
Operating transactions:		
Net cost of operations	$ (14,008,609)	$ (13,655,461)
Non-cash transactions:		
Amortization of capital assets	263,809	358,861
	(13,744,800)	(13,296,600)
Increase in audit fees receivable	(185,279)	(18,240)
Decrease in other receivables and advances	34,998	57,278
Increase in accounts payable	89,948	76,492
Increase (decrease) in accrued vacation pay	171,677	(63,524)
Net cash used by operating transactions	(13,633,456)	(13,244,594)
Capital transactions:		
Purchase of capital assets	(422,538)	(72,176)
Financing transactions:		
Net transfer from general revenues	14,055,994	13,316,770
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are part of these finanacial statements.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2005

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000. General revenues of the Province of Alberta fund both the net cost of operations of the Office of the Auditor General and the purchase of capital assets. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including regional health authorities, universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. The results of our work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly. The 2003–2004 Annual Report of the Auditor General was released in the 2005 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for public sector entities and reflect the following policies and practices:

(a) Audit fees

Audit fee revenue is recognized when billable assurance audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues, and to regional health authorities audited with the approval of the Standing Committee on Legislative Offices. The fees billed to the regional health authorities only recover the fees charged to the Office by agents.

(b) Output costs

Schedule 1 provides detailed costs for two types of output:
- Assurance Auditing results in Auditor's Reports on financial statements and on performance measures.
- Systems Auditing is undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

(c) Expenses incurred by others

Services contributed by other entities in support of the Office's operations are disclosed in Note 7.

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	10%

(e) Pension expense

Pension costs included as part of these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Valuation of financial assets and liabilities

The amounts reported as audit fees receivable, other receivables and advances, accounts payable and accrued vacation pay approximate their fair values.

Note 3 Change in Accounting Policy

Effective April 1, 2004, the Office determined that the standards established by the CICA's Public Sector Accounting Board were the most appropriate to its objectives and circumstances. Consequently, the Office no longer defers and amortizes contributions from general revenues for the acquisition of capital assets. This change in accounting policy, together with no longer treating services paid for by other entities as expenses and contributed revenue, has been applied retroactively with restatement of the comparative financial statements. The effect of the change has been to increase the net cost of operations for the current and prior year by $264,000 and $359,000 respectively, and to decrease the net liabilities at March 31, 2005 and 2004 by $512,000 and $361,000 respectively.

Note 4 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 1,116,084	$ 830,592	$ 285,492	$ 36,978
Computer software	293,873	247,920	45,953	70,755
Office equipment	730,491	542,469	188,022	253,005
	$ 2,140,448	$ 1,620,981	$ 519,467	$ 360,738

Note 5 Defined Benefit Plan

The Office participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $589,607 for the year ended March 31, 2005 (2004: $539,877).

At December 31, 2004, the Management Employees Pension Plan reported a deficiency of $268,101,000 (2003: $290,014,000) and the Public Service Pension Plan reported a deficiency of $450,068,000 (2003: $584,213,000). At December 31, 2004, the Supplementary Retirement Plan for Public Service Managers had a surplus of $9,404,000 (2003: $9,312,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2005, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $3,208,000 (2004: $1,298,000). The expense for this Plan is limited to the annual contributions for the year.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on January 16, 2004.

Note 7 Expenses Incurred by Others

The Office had the following transactions with other entities for which no consideration was exchanged. The amounts for these transactions are estimated based on the costs incurred by the service provider to provide the service.

	2005	2004
Expenses incurred by Alberta Infrastructure and Transportation		
Accommodation	$ 506,496	$ 487,912
Amortization of leasehold improvements	5,820	5,820
	$ 512,316	$ 493,732
Expense incurred by the Legislative Assembly's Office		
Audit fee	$ 20,000	$ 20,000

Note 8 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

	2005				2004
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits(3)	Total	Total
Auditor General(4)	$ 171,336	$ 2,828	$ 30,596	$ 204,760	$ 205,205
Assistant Auditor General(5)	-	-	-	-	47,612
Assistant Auditor General(6)	143,500	15,000	8,537	167,037	185,329
Assistant Auditor General(7)	143,500	20,000	25,568	189,068	181,106
Assistant Auditor General(8)	143,500	23,347	27,049	193,896	191,505
Assistant Auditor General(9)	-	-	-	-	64,895
Assistant Auditor General(10)	120,000	14,000	21,841	155,841	105,166
Assistant Auditor General(11)	120,000	14,000	24,839	158,839	96,864
	$ 841,836	$ 89,175	$ 138,430	$ 1,069,441	$ 1,077,682

(1) Base salary comprises pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, and any payments to contract personnel in lieu of employer contributions towards employee non-cash benefits. The vacation payments are as follows:

	2005	2004
Auditor General(4)	$ -	$ -
Assistant Auditor General(5)	-	8,910
Assistant Auditor General(6)	-	12,526
Assistant Auditor General(7)	-	-
Assistant Auditor General(8)	9,347	10,115
Assistant Auditor General(9)	-	12,711
Assistant Auditor General(10)	-	8,199
Assistant Auditor General(11)	-	-
	$ 9,347	$ 52,461

(3) Other non-cash benefits include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition.

(4) Automobile provided, no dollar amount included in benefits and allowances.

(5) Responsibilities—until June 30, 2003, Systems Auditing

(6) Responsibilities—Advanced Education, Cross-Ministry, Education, Executive Council, Gaming, Learning, and Systems Auditing

(7) Responsibilities—Agriculture, Finance (Revenue), Food & Rural Development, Health & Wellness, and Innovation & Science

(8) Responsibilities—Environment, and Professional Practice and Quality Assurance

(9) Responsibilities—until July 14, 2003, Community Development, Health & Wellness, and Learning

[10] Responsibilities—with effect from August 1, 2003, Community Development, Finance, Government Services, Justice and Attorney General, Restructuring and Government Efficiency, Seniors, Solicitor General and Sustainable Resource Development

[11] Responsibilities—with effect from August 1, 2003, Aboriginal Affairs & Northern Development, Children's Services, Economic Development, Energy, Human Resources and Employment, Infrastructure and Transportation, International and Intergovernmental Relations, Legislative Assembly, Municipal Affairs

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

Schedule 1

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the Year Ended March 31, 2005

	2005 Budget			2005 Actuals			2004 Actuals		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work performed by Sector:									
Aboriginal Affairs and Northern Development	$ 53,000	$ -	$ 53,000	$ 55,063	$ -	$ 55,063	$ 42,488	$ 3,716	$ 46,204
Advanced Education	3,035,000	481,000	3,516,000	2,815,400	462,252	3,277,653	2,890,403	331,422	3,221,825
Agriculture, Food and Rural Development	314,000	108,000	422,000	334,355	658,602	992,957	321,357	41,746	363,103
Children's Services	678,000	334,000	1,012,000	635,110	153,739	788,849	883,691	199,100	1,082,790
Community Development	326,000	92,000	418,000	325,097	15,780	340,877	554,253	116,268	670,521
Cross-Government Issues	107,000	1,534,000	1,641,000	175,038	1,205,744	1,380,782	232,476	1,323,266	1,555,742
Economic Development	87,000	9,000	96,000	68,938	35,865	104,803	86,698	633	87,330
Education	153,000	-	153,000	163,076	50,481	213,557	155,521	126,331	281,852
Energy	434,000	105,000	539,000	302,335	117,236	419,572	329,668	105,131	434,799
Environment	96,000	106,000	202,000	89,076	33,413	122,489	105,726	8,550	114,276
Executive Council	49,000	9,000	58,000	53,290	2,860	56,151	42,971	10,988	53,959
Finance	2,166,000	308,000	2,474,000	1,938,553	227,568	2,166,121	1,807,756	394,778	2,202,534
Gaming	213,000	77,000	290,000	216,182	68,039	284,221	227,723	132,040	359,763
Government Services	149,000	98,000	247,000	126,643	35,695	162,338	153,907	18,540	172,447
Health and Wellness	1,264,000	783,000	2,047,000	1,380,340	916,894	2,297,233	1,508,937	499,719	2,008,656
Human Resources and Employment	454,000	141,000	595,000	477,711	54,729	532,440	432,437	20,563	453,000
Infrastructure and Transportation	407,000	334,000	741,000	466,884	341,811	808,695	457,811	229,594	687,405
Innovation and Science	275,000	61,000	336,000	318,842	37,559	356,401	327,079	47,828	374,907
International and Intergovernmental Relations	47,000	5,000	52,000	36,993	1,171	38,164	32,519	1,265	33,784
Justice and Attorney General	167,000	65,000	232,000	205,893	41,817	247,709	155,854	35,135	190,989
Legislative Assembly	76,000	50,000	126,000	52,164	19,488	71,653	75,813	46,935	122,749
Municipal Affairs	232,000	104,000	336,000	262,685	78,640	341,325	255,781	52,564	308,345
Restructuring and Government Efficiency	399,000	219,000	618,000	355,320	94,033	449,352	298,157	143,928	442,084
Seniors	449,000	134,000	583,000	307,891	363,456	671,346	160,748	31,424	192,171
Solicitor General	78,000	50,000	128,000	57,777	30,500	88,276	54,901	48,200	103,102
Sustainable Resource Development	169,000	112,000	281,000	148,589	70,933	219,523	182,882	70,212	253,094
	$ 11,877,000	$ 5,319,000	$ 17,196,000	$ 11,369,244	$ 5,118,306	$ 16,487,550	$ 11,777,556	$ 4,039,876	$ 15,817,432

Schedule 2

Alberta Legislature
Office of the Auditor General
Other Performance Information

	2003–2004 Actual	2004–2005 Target	2004–2005 Actual	2005–2006 Target
Assurance Auditing				
Issuance of reports on financial statements				
Consolidated financial statement	June 2003	June 2004	June 2004	June 2005
Entities for consolidation with March 31 year ends	71% by July 15, 2003	90% by July 15, 2004	99% by July 15, 2004 (a)	90% by July 15, 2005
Other entities	60% within 120 days of entity year end	70% within 120 days of entity year end	71% within 120 days of entity year end	80% within 120 days of entity year end
Issuance of reports on performance information				
Measuring up	June 2003	June 2004	June 2004	June 2005
Ministry performance measures	91% by September 15, 2003	100% by September 15, 2004	91% by September 15, 2004	100% by September 15, 2005
Planning for resources				
Percentage of assurance auditing projects completed within budgeted costs (b)	64%	70%	71%	80%
Costs by core business				
Assurance auditing	73%	70%	69%	70%
Systems Auditing				
Acceptance of the Auditor General's primary recommendations (Note – acceptance does not include recommendations accepted in principle or under review)				
Accepted primary recommendations	95%	95%	87%	95%
Implementation of the Auditor General's primary recommendations				
Primary recommendations implemented within 3 years of acceptance	Satisfactory progress for 16 of 19 issues not implemented	All implemented	Satisfactory progress for 18of 21 issues not implemented	All implemented
Release of the Auditor General's Annual Report				
Release date	October 2003	October 2004	October 2004	October 2005
Planning for resources				
Percentage of systems auditing projects completed within budgeted costs (b)	48%	70%	61%	70%
Costs by core business				
Systems auditing	27%	30%	31%	30%
Corporate Initiatives				
Audit staff resource capacity				
Percentage of staff meeting their goal for available time[1] spent on core business functions[2]	95%	100%	100%	100%
Biennial employee satisfaction survey 3				
Percentage of employees expressing satisfaction working for the Office	80%	N/A	N/A	N/A
Corporate Service costs				
Corporate operating costs as a percentage of total Office costs	19%	Less than 20%	18%	Less than 20%

Certain 2003-2004 figures have been restated to conform to 2004-2005 presentation.

a) We have allowed 2 weeks for the delay caused by the Salaries and Benefits disclosure. Without this 61% would have met the target.

b) Audit projects include only those over 200 hours. Also, a tolerance of 10% of budget is allowed.

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[1] Available time recorded by staff after deducting vacation and sick leave, and statutory holidays.

[2] Core business functions are the OAG's core businesses, and include professional development and other functions specifically related to OAG's core businesses.

[3] This biennial survey was last conducted in 2004 and the next survey will be done in 2006.

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 18, 2005, the day the Assembly last adjourned were:

Janis Tarchuk, Chair
Laurie Blakeman
Doug Griffiths
Richard Magnus
Raj Pannu
Ivan Strang
Denis Ducharme, Deputy Chair
Jack Flaherty
Rob Lougheed
Richard Marz
Dave Rodney

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

Hugh MacDonald, Chair
Tony Abbott
Bill Bonko
Ray Danyluk
Doug Griffiths
Fredrick Lindsay
Frank Oberle
Dave Rodney
Len Webber
George VanderBurg, Deputy Chair
Laurie Blakeman
Harry Chase
David Eggen
Art Johnston
Ted Morton
Raymond Prins
George Rogers

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Peter Watson, Chair
George Cornish
Franklin L. Kobie
Don Wilson
The Hon. Shirley McClellan
Terry Gomke
John Watson

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as our agent under section 9 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2005, were as follows:

BDO Dunwoody LLP
Collins Barrow
Deloitte & Touche LLP
Ernst & Young LLP
Hawkings Epp Dumont LLP
Johnston, Morrison, Hunter & Co. LLP
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Stout & Company
Young Parkyn McNab LLP

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op term, are:

Alex So
Alicia Drake
Alison Shi
Alla Gibson
Ally Shariff
Andrew Lerohl
Ann Roberts
Annie Shiu, CHRP
Arlene DeLuca
Audrey Hayward
Aynour Salama
Balraj Thandi
Barb McEwen, BASc, MSc
Barbara Harasimiuk, CA
Bob Ballachay, CA
Brad Ireland, CA
Brad Klaiber
Charlotte Barry
Christopher Nowell
Cindy Brown
Cornell Dover, CA·IT/CISA
Cory Goodale, CMA
Curtis Mah
Cynthia Hyslop, MBA
Dan Balderston, CA
Darlene Orsten, CMA
Darrell Pidner, MBA
David Allan, CA
David Luu
Debbie Bryant
Deborah Herron
Debra Bereska
Diana Potapovich
Donna Banasch, CMA, CA
Donna Chapman
Doug McKenzie, CA
Doug Wylie, CMA
Ed Ryan, CFE
Eric Leonty
Elma Handzic
Eric Wagner
Fred J. Dunn, FCA
Gao Yu
Geoffrey Hnatiuk
Gina Fowler
Graeme Arklie, CA
Harmeet Kaur
Holly Mah

Holly Diduck Opalinsky
Ian Sneddon, CA
Jackie DiLullo
Jacyln Smith
Jane Staples, CA
Janine Mryglod, CA
Jason Song
Jeff Dumont, CA
Jeff Sittler, CA
Jeff Urbanowski
Jim Hug, CA
John Margitich
Judyanna Chen
Karen Chan, CA
Karen Hunder, CA
Karen Schmidt
Karen Tran
Karim Pradhan, CA
Kathy Anderson
Kelly Wilson, CA
Ken Hoffman, CA
Kerry Langford
Lisa LaRocque
Lori Bonhage
Lori Trudgeon
Loulou Eng, CMA
Mabel Wang
Marcela Gagnon, CA
Margo Stewart
Mary-Jane Dawson, CA
Maryna Kirsten, CA
May Lin
Medley Russel
Merwan Saher, CA
Michael Stratford, CA
Michelle Fleming, CA
Nadia Potochniak, MCP, MCSE
Nisha Sachedina
Pablo Binas
Pamela Tom, CMA
Patrick Doyle
Patty Hayes, CA
Pelma Jore
Peter Zuidhof, CGA
Phil Minnaar, CA
Prescilla Chen
Rahim Murji
Ram Rajoo, CA

Robert Drotar, CA
Roger Elvina
Ron Meleshko
Ronda White, CA
Rosa-Maria Schwaiger
Russel Lesyk, CMA
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Auditor General Act

Chapter A–46

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Auditor General as auditor

11 The Auditor General

(a) is the auditor of every ministry, department, regulated fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12;1995 cG-5.5 s17; 2003 c2 s1(23)

Access to information

14(1) The Auditor General is at all reasonable times and for any purpose related to the exercise or performance of the Auditor General's powers and duties under this or any other Act entitled to access to the records of, and electronic data processing equipment owned or leased by

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(2) The following persons shall give to the Auditor General any information, records or explanations that the Auditor General considers necessary to enable the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act:

(a) present or former public employees, public officials or personal service contractors;

(b) present or former employees, officers, directors or agents of a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(3) The Auditor General may station any employee of the Office of the Auditor General in the offices of

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor,

for the purpose of enabling the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act more effectively, and the department, fund administrator, Provincial agency, Crown-controlled organization or other organization or body shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15; 2003 c15 s5

Evidence under oath

14.1(1) In conducting an audit or examination or performing any other duty or function under this or any other Act, the Auditor General may by a notice require any person

(a) to attend before the Auditor General to give evidence under oath with respect to any matter related to the audit, examination or other duty or function, and

(b) to produce any records respecting the matter referred to in the notice.

(2) If a person fails or refuses to comply with a notice under subsection (1), the Court of Queen's Bench, on the application of the Auditor General, may issue a bench warrant requiring the person to attend before the Auditor General in compliance with the notice.

(3) If a witness refuses

(a) to give evidence in compliance with a notice under subsection (1),

(b) to answer any questions before the Auditor General pursuant to the notice, or

(c) to produce any records referred to in the notice, the Court of Queen's Bench, on the application of the Auditor General, may commit the witness for contempt.

(4) A person who is given a notice under subsection (1) shall not be excused from giving evidence or from producing records on the ground that the evidence or records might tend to incriminate the person or subject the person to a penalty or forfeiture.

(5) A witness who gives evidence or produces records pursuant to subsection (1) has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for or proceedings in respect of perjury or the giving of contradictory evidence.

2003 c15 s6

Reliance on auditor

16(1) In this section, "regional authority" means a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act.

(3) The Auditor General shall present any report prepared by the Auditor General under subsection (1) to the chair of the Select Standing Committee, who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(4) The Auditor General shall present any report prepared by the Auditor General under subsection (2) to the President of the Executive Council and afterwards the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(5) After the Speaker has distributed copies of the report under subsection (4), the Auditor General may make the report public.

(6) Despite subsection (4), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (4) to the Clerk of the Assembly, who shall comply with subsection (4) as if the Clerk were the Speaker.

RSA 1980 cA-49 s17; 2003 c15 s7

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

(2) A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that the Auditor General considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which the Auditor General is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to the Auditor General's attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which the Auditor General is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.

(5) A report under this section shall be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(6) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 s17;1996 cA-27.01 s22

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

(2) A report under this section must be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

RSA 1980 cA-49 s20

Assembly not sitting

20.1(1) When the Assembly is not sitting and the Auditor General considers it important that a report presented to the chair of the Select Standing Committee under section 17(3), 19(5) or 20(2) be made available to the Members of the Assembly and to the public, the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(2) After the Speaker has distributed copies of the report under subsection (1), the Auditor General may make the report public.

(3) Despite subsection (1), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (1) to the Clerk of the Assembly, who shall comply with subsection (1) as if the Clerk were the Speaker.

(4) Nothing in this section dispenses with the requirement of the chair of the Select Standing Committee to lay a report before the Assembly pursuant to section 17(3), 19(5) or 20(2).

2003 c15 s8

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in the Auditor General's examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Minister of Finance of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Minister of Finance's powers and duties.

RSA 1980 cA-49 s28; 2003 c15 s9

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which the Auditor General is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

RSA 1980 cA-49 s29

Reference

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability	Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to: • report their results (what they spent and what they achieved) and compare them to their goals • explain any differences between their goals and results Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).
Accountability system	A system designed to ensure that the government is accountable for how it spends public money. The system requires the government to: 1. set measurable goals and responsibilities 2. plan the work to achieve the goals 3. do the work and monitor progress 4. report on results 5. evaluate results and provide feedback to refine or adjust plans
Accrual basis of accounting	A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.
Adverse auditor's opinion	An auditor's opinion that financial statements are not presented fairly and are not reliable.
Amortize	To reduce an amount of money to zero over a certain time.
Assurance	An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.
Attest work, attest audit	Work an auditor does to express an opinion on the reliability of financial statements.
Audit	An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.
Auditor	A person who examines systems and financial information.
Auditor's opinion	An auditor's written opinion on whether things audited meet the criteria that apply to them.
Auditor's report	An auditor's written communication on the results of an audit.
Capital asset	A long-term asset.
Capitalize	To charge an expense to a capital asset account rather than an expense account.

Capital planning	A process to: • identify the short- and long-term capital assets needed to carry out core businesses • rank capital projects • prepare business cases to support capital projects • determine the cost and method of financing capital projects
COBIT	Abbreviation for "Control Objectives for Information and Related Technology". COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.
Core business	The essential thing that a ministry does.
Corporate government accounting policy	An accounting policy that the Ministry of Finance requires ministries and departments to use in preparing their financial statements. Accounting policies include both the specific accounting principles an organization uses and the ways it applies the principles.
Criteria	Reasonable and attainable standards of performance that auditors use to assess systems.
Cross-ministry	The section of this report covering systems and problems that affect several ministries or the whole government.
Crown	The Government of Alberta.
Deferred maintenance	Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.
Exception	Something that does not meet the criteria it should meet—see "Auditor's opinion".
Expense	The cost of a thing over a specific time.
GAAP	Abbreviation for "generally accepted accounting principles", which are established by the Canadian Institute of Chartered Accountants.
Governance	A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.
IMAGIS	Abbreviation for the government's Integrated Management Information System—a customized version of *PeopleSoft*. It is the main computer program that ministries use for financial and human resource information systems.
Internal audit	A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

Internal control	A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that: • they understand the effectiveness and efficiency of operations • internal and external reporting is reliable • the organization is complying with laws, regulations, and internal policies
Management letter	Our letter to the management of an entity that we have audited. In the letter, we explain: 1. our work 2. our findings 3. our recommendation of what the entity should improve and how it should do so 4. the risks if the entity does not implement the recommendation We also ask the entity to explain specifically how and when it will implement the recommendation.
Material, materiality	Something important to decision-makers.
Misstatement	A misrepresentation of financial information due to mistake, fraud, or other irregularities.
Net realizable value	Estimated selling price in the ordinary course of business minus estimated costs of completion and sale.
Outcomes	The results an organization tries to achieve based on its goals.
Outputs	The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many".
Performance measure	Indicator of progress in achieving a goal.
Performance reporting	Reporting on financial and non-financial performance compared to plans.
Performance target	The expected result for a performance measure.
Public sector accounting standards	Accounting principles, similar to GAAP, which apply to the public sector; established by the Public Sector Accounting Board.
Public sector comparator	A benchmark to assess the value for money of two different ways of constructing facilities and providing services: by traditional government methods and by a public-private partnership. The private sector partner may design, build, finance, operate, maintain, and own the facility. In a traditional government model, the government would do all these things. Public sector comparators are typically used in long-term and construction projects.
Qualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.
Recommendation	A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.
Reservation of opinion	A generic term for an adverse auditor's opinion or a qualified auditor's opinion.
Risk	Anything that impairs an organization's ability to achieve its goals.

Risk management	Identifying and then minimizing or eliminating risk and its effects.
Shadow bid	A bid on a significant project that is a benchmark to ensure that the bids of eligible suppliers are reasonable. A project owner pays an expert to make a shadow bid estimating a reasonable amount for the project. By making the shadow bid, the expert becomes ineligible to bid on the project. A shadow bid is particularly important if there are no competing bids on a project.
Sole source contract	An agreement with just one supplier chosen without a competitive bidding process.
Specified auditing procedures	Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.
Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.
Systems audit	To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that: • an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or • appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with. To meet this requirement, we do *systems audits*. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have 5 criteria and a system meets 3 of them, the 2 unmet criteria lead to the recommendation. A *systems audit* should not be confused with assessing systems with a view to relying on them in an audit of financial statements.
Unqualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them.

Value for money	The concept underlying a systems audit is *value for money*. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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